The Journal of Social, Political and Economic Studies

Summer, 1995 Vol. 20, No. 2

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The Journal of Social, Political and Economic Studies is published quarterly by the Council for Social and Economic Studies. All correspondence should be addressed to The Editor, P.O. Box 34070, N.W. Washington D.C., 20043, U.S.A. [Telephone (202) 371-2700: Fax (202) 371-1523]. Formerly known as *The Journal of Social and Political Affairs*, the subscription rate is $80.00 per annum for libraries and institutions, although scholars and private individuals are entitled to a privileged rate of $37.50 per annum. Reduced three-year subscriptions are available at a cost of $210.00 for libraries and $90.00 for individuals. Subscribers outside the USA please add $5.00 per annum. The attention of readers is also drawn to the valuable Monograph Series (ISSN 0895-724X), published in association with the Journal and advertised elsewhere in this issue. Members of the academic community and other qualified individuals are invited to consult the General Editor at the above address concerning articles which they may wish to submit for possible publication.

ISSN 0193-5941

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The Journal of SOCIAL, POLITICAL AND ECONOMIC STUDIES

Roger Pearson
General Editor
Dwight D. Murphey
Associate Editor

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The U.S. Space Program in the Post-Cold War Era

Robert C. Richardson III
High Frontier Inc.

America has been slowly and discreetly undergoing somewhat of a revolution in its official attitude toward what should now be done in space. Until the end of the Cold War, U.S. activities and government attitudes, if not formal policies, largely envisioned the exploitation of space as primarily the province of government. While this was logical in all military space activities and programs, it became a more-or-less de facto situation with regard to NASA activities. Partly due to cost, partly to politics and foreign policy, and partly to bureaucratic empire building, NASA managed to acquire a near-monopoly in non-military space. In the process, it moved from an organization primarily committed to research, development, and exploration to one that now makes its living primarily from managing relatively routine operations.

Unfortunately, R & D and operations have always had a basic set of opposing characteristics. The former is only successful when those pursuing it are both inclined and willing to take risks. Conversely, operators are inherently cautious. Trying to put man on the moon under the Apollo program was clearly a high-risk endeavor. In the operation of the Shuttle Fleet today, as in most other NASA space endeavors, any thought of risk is rejected. The very thought of risking lives, of adverse publicity, of criticism in the press, etc., has created a bureaucratic attitude in NASA and among its political managers better suited to the conduct of routine, safe, daily activities that ensure full "rice bowls" for all participants, than to initiating bold efforts to exploit technological progress to open up space to free enterprise and to acquiring a maximum of both economic and military advantages for the benefit of the U.S.

I suggest that the time has come for this to change, and it is changing albeit slowly and with resistance from the establishment. Ever since Sputnik in the 1950s, the private sector, and especially the youth of America, have aspired to participate personally in space activities. Several generations have been disillusioned in these aspirations by the quasi-monopoly of government, which admittedly

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was justified to some extent by the Cold War; by the high cost of any and all space endeavors; and in some cases by political and arms control dreams of keeping space as a governmental hostage for the benefit of all mankind. Now this is beginning to change, not so much because of common sense or even enlightened political leadership as because of public attitudes toward spending that produces neither personal gratification nor economic profit, nor improved national income. The U.S. public is becoming more and more disillusioned. Either the people see that the country gets some visible economic benefits, or the taxpayers will continue to lose interest in funding political stunts or jobs for bureaucrats.

Space is the most recent new frontier. It has tremendous potential not only from the point of view of the future security of Americans but also for their future standard of living. Many basic benefits are bound to accrue to those countries best able to exploit if not dominate developments within this new frontier. From what we already know, it seems likely that major problems of increasing concern on earth, such as energy, availability of basic resources, over-population, and the management of the earth's environment may find their ultimate solution in space or as a result of space-based activities.

The U.S. has enjoyed access to near-space for several decades. So far, however, its exploitation for other than communications and earth surveillance activities has been limited. This is partly due to technology and cost, and partly to the Cold War and its impact on priorities and funding. It is now time to change all of this. The first step should be to define and adopt a Basic National Policy to this effect.

By its very nature, exploiting space has global implications. It obviously cannot be pursued on a purely national basis. This does not mean space has to be exploited internationally, or for "all mankind's benefit." The desire to do this is understandable, but impractical at this time; and the same is true for concepts that envision space as being for peaceful purposes only.

So long as there are separate nations on earth with separate and independent interests, standards, ethnic populations, goals, capabilities, traditions and aspirations, common sense suggests that we can expect competition, and even wars, involving space and space assets. Any government that limits its space activities to internationally mandated or even "blessed" ones will do so at the risk of surrendering

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its most advanced technologies, knowledge, and operating capabilities in space to potential economic competitors, if not enemies.

We are now entering a period wherein major changes in many past national policies will be required. Such major changes are normally resisted by most of those they affect. Since they are almost unavoidable in the present world environment, they may be easier to come by. There being little choice here, the only issue that remains is the way to go. This applies especially to policy areas like space where new guidance is sorely needed if the U.S. is to stay ahead and remain secure as we move into the next century. What we now need to do is to look at where we have been, were we are, and where we want to go in space and then develop new basic policies to guide this and future administrations.

Further research on where the U.S. should go in space is no longer needed, nor do we need any additional committees, high-level study groups, or conferences to determine this. Since the need for a new and all-encompassing U.S. statement of space policy has been recognized in recent years by numerous experts, aerospace companies, space "buffs," and other qualified groups, all the necessary findings and recommendations have been published. The question now is which to act on and how to get it done. In view of this, and in the interest of not reinventing the wheel or trying to improve on the perfect, I have extracted and summarized most of the following considerations and conclusions from the best of these studies and reports.

In my opinion by far the most thorough and best suggestions that have surfaced with regard to U.S. space policy in the post-Cold War era can be found in the findings, analyses and recommendations made by the Space Transportation Association (STA)[1] and High Frontier, Inc., (HF)[2] over the past five or more years. Having been associated with both of these organizations in their effort to get the administration to accept a sound U.S. space policy, I naturally consider these views to be the ones that we should now adopt. These STA and HF findings and recommendations on space policy have been set forth and argued in great detail in the reports, papers and articles that are listed in the references here, and especially in the *Journal of Practical Applications in Space*.[3]

There are only three major issues that should be addressed at this time. These are: (a) The need for an overall U.S. space policy to

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justify and coordinate space activities, and lack of any such policy to date; (b) The importance of sound military space programs to the future security of the U.S.; and (c) the importance of getting U.S. free enterprise involved in exploiting space for the benefit of the U.S.

On Lack of a Basic Space Policy

Every U.S. administration claims to have had basic policies regarding what America should do in all areas where the country's security or economic well-being are at stake. What America has done, or should now do, with regard to space has been an exception to this rule. While all Presidents, Congresses, and administrations since the launching of Sputnik have written papers entitled "Basic Space Policy," few if any of these have actually addressed fundamental issues, such as whether or not the U.S. should seek to control this new High Frontier or at least control access to it.

When I say that no administration or political party seems to have adopted a consistent basic national policy with respect to the U.S. and space, I mean that America's fundamental national goals and objectives in space have not been clearly stated, debated, and agreed upon in unequivocal terms. This is what a National Policy Statement is supposed to do. While both conservatives and liberals in all administrations claim they have written such policy statements, the fact is that these have all dealt with specific "programs" and activities, ranging from Apollo to the current NASA Space Station. To date there appears to have been a deliberate effort to avoid the more basic issue of the extent to which the U.S. should seek to exploit its access to space and its technological advantages primarily for the benefit of America and the American people.

For instance, no administration has, as yet, made it clear whether space is to be exploited by the U.S. for the benefit of Americans when and wherever advantageous to the U.S., or only for the benefit of "all mankind " as stated in the United Nation's 1967 Treaty on "Principles Governing the Activities of States in the Exploration and Use of Outer Space, Including the Moon and Other Celestial Bodies."[4]

Not only is there no policy covering whether or not findings, benefits, and returns from U.S. space activities must be shared with other nations, but there is also no policy with regard to property rights in space – national or private – or whether or not American

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free enterprise can pursue profit-making adventures and other civil activities in space without government – read bureaucratic – approval, if not actual management. Many past public statements and U.S. space programs and activities, as well as those of other nations, violated the guidelines in the above U.N. theory – so, "who rules?" This needs to be formally clarified in policy if we are to protect free enterprise investors in space activities, let alone encourage the private sector to invest.

Space and National Security

What is even worse in terms of the lack of any basic U.S. space policy is the lack of any clear commitment by any conservative or liberal Administration to, at minimum, seek and maintain a dominant U.S. military position in space. This is true even though most agree that long-term U.S. security demands that the U.S. take any and all steps necessary to make certain that no other nation or group of nations ever acquires the ability to deny America free access to near-space in peace or war.[5]

Whether anyone likes it or not, space is the latest "high ground" whose control in any future major war will determine victory or defeat. Nations whose military forces have enjoyed access across their frontiers, while being able to deny access to their opponents, have always defeated military threats on land. Those, such as England, that once enjoyed control of the seas, exploited this advantage. They could move their troops or goods on a worldwide basis, while denying their opponents or competitors the ability to move theirs.

After technology made the airplane available for civil and military use, control of the air determined who won or lost wars. Two examples are WWII and more recently the Gulf War. Based on these precedents, simple common sense tells us that space is today the decisive new high ground. And that no matter what sophisticated academic theories or politico/social aspirations may be made, so long as there are separate governments and nations on earth, any nation that enjoys unilateral control over access to space, along with the ability to deny this to any potential opponents, will inevitably win any future wars they are involved in.

In the security area, military space activities have been limited by budget if not policy decisions to surveillance and communications systems and these primarily for the support of military operations on

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the ground. In fact, the military has been discouraged from developing, and specifically forbidden to deploy, offensive and defensive space systems that commonsense indicates are essential if the U.S. is to have the capability to maintain, let alone control access to space.

Had basic national space policy called for unilaterally exploiting this new high ground – as necessary to first and foremost protect America and the American people from any and all acts of foreign aggression – the U.S. would now enjoy not only a dominant position in near-space but also protection from any ballistic missile attacks by nations or individuals.

Had the SDI program initiated by President Reagan over ten years ago, and the anti-satellite programs (ASAT) proposed by the USAF even earlier, been completed, as they should and could have been, the U.S. would now be able to deter or defeat unwanted surveillance as well as any attacks from or through space. This would obviously help deter the proliferation of ballistic missiles as well as efforts to build atomic or other warheads for these. Why waste money acquiring expensive weapons when commonsense, not just breakable treaties, makes it quite clear that they are not likely to be useful.

All Americans protect their families, homes, children, pets, and property against most local and internal acts of aggression. They expect their President and military to protect them from all major foreign and military acts of aggression, at least to the extent technologically and economically feasible. Unfortunately, since the early 1960s most U.S. administrations have been derelict in meeting this public trust by failing to adequately and logically exploit space in all areas where space systems are required to accomplish this.

It seems to many of us that our political leadership is increasingly losing sight of government's fundamental role and purpose. The military's basic mission is to protect our people and assets from physical foreign threats and acts of aggression. With regard to space, government has been ignoring its responsibility and accepting inordinate risks of incurring American casualties and other losses by denying the military the ability to do this. Conversely, we recently have had the government use its military to invade Haiti. In both cases, such policies violate the basic role and purpose of the nation's military forces, since Haiti presents absolutely no physical threat to America or its people while missile proliferation does.

Whatever the merits of these two cases, it is obvious that once

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the classic role of the military – to defend the nation against external threats – is violated it can become routine to do it. What is the difference between a Commander in Chief using the Army to force a foreign power to install an unpopular leader, when the majority of the U.S. people and Congress clearly oppose this, and his using the Army to remain in office in the U.S. against the majority desire in some future election?

Many of us have been taught that the framers of the U.S. Constitution recognized this threat to "government by the people' when they wrote the Amendment on the right of the people to bear arms. Since obviously the Amendment that protects this right was not put in the Constitution solely to give the people the right to conduct target practice or go hunting, its real purpose was undoubtedly to make certain that should some future U.S. Commander in Chief, even if duly elected, decide to misuse the national armed forces he controls in order to stay in office, "people" would always have the means of protecting their basic rights and be able actively to resist any infringements on these.

A by-product of this example, not directly related to it but to the on-going argument over gun-control laws, is also worth mentioning. This is the seldom-mentioned fact that this rationale for the right of the people to own guns also makes the case that the public should have the right not just to have guns for sport but also to have guns able to match those available to the Army and police, and that the NRA is right on this issue. Obviously if the people's arms are roughly equivalent to those that might threaten the people's control, effective recourse to any unconstitutional seizure of power would be impractical.

The importance to national security of ready access to space was clearly demonstrated in the Gulf War. Twenty year-old technology shot down ballistic missiles in flight, assisted by space sensors that were also far behind the state of the art. Units were able to locate themselves on the ground and in the air and at sea with pinpoint accuracy, thanks to space-borne military systems, especially the Global Positioning Satellite (GPS).

It is now possible to deploy in space a constellation of small interceptor satellites (Brilliant Pebbles) with multiple accurate sensors (Brilliant Eyes) which in peacetime could deliver masses of important information concerning the planet Earth, and in the event of war

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could detect and reliably intercept the most awesome of man's destructive inventions, ballistic missiles armed with mass destruction warheads. The success of the Clementine device, developed by the SDIO, in mapping the Moon's surface illustrates these potentials.

The deployment in near-Earth space of such a system would not only provide data on which to base sensible plans to cope with numerous problems including natural disasters and ecological issues, but would also remove the vulnerability of humanity everywhere to the proliferating threat of ballistic missile attack. Just as importantly, the deployment of a Brilliant Pebbles defensive system, even the mere decision to deploy, would dampen the current urge of developing nations to acquire a few of those "unstoppable" ballistic missiles. If reliable, quick response SSTO vehicles were available, such defensive systems could be maintained on the ground and deployed only when ballistic missile threats arose. This practical return on investment is achievable in the relatively near term; that is, within five or six years.

Also, by denying the U.S. military two of the major means required to ensure America's ability to cope with future threats from or though space, our politicians, both liberal and conservative have in effect been inviting the proliferation of atomic weapons and the building of rockets and of the satellites from which to launch these. While the Soviet threat that such programs have presented over the past 20 years may be reduced at least temporarily, all nations now clearly understand the key role of access to and control of near-space in future wars. The leaders of emerging world powers such as China, and of even other smaller countries, are not stupid in this regard.

Space and Free Enterprise

On the economic side, bold views and fancy verbiage can also be found in government statements, speeches, and reports that suggest that it is U.S. policy to encourage the private sector to pursue civil space ventures. In practice, the government - read NASA - has largely monopolized access to space for commercial and civil purposes or demanded control of all civil efforts.

Lack of a consistent, bipartisan policy to reduce the cost of space transportation has stifled vigorous action to match the rhetoric when it comes down to opening up space to the U.S. civil sector. For the most part, only very expensive, complex and hand-crafted satellites have been important enough to justify their launch costs. For reasons

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that were no doubt valid at the time, transportation from earth to orbit and back has too long been overly integrated with the purpose and nature of the payloads or passengers.

Transportation on land, at sea, and in the air has always been a "service" business. Manufacturing companies build vehicles to carry people, pigs, and cargoes in all these media. Service companies or individual users such as government agencies buy these vehicles to meet their transportation needs. In general the builders of vehicles get paid by those who buy the vehicles rather than by those who use them to get from one place to another. Conversely, the companies that buy them to offer transport to others get their returns from the cargoes or passengers they carry. When it comes to going from earth to near-space this should logically also be the case, although to date it has not been.

Due largely to the fact that the rockets most used for space transportation, the so-called Expendable Launch Vehicles (ELV's) and to a partial degree our Shuttle vehicles, are essentially "one time" use systems – hence, "throw-aways" – there has been a tendency to build the transport and payload as a unit and operate and price it accordingly. This also has led to integrating builders and operators of space lift to the extent that each of the classic two functions, "manufacturing" and "service" wind up unduly merged at the expense of transportation costs, risks, and efficiency.

The one-time use characteristic of most space lift systems has had a very negative impact on opening up space to free enterprise. It is as if all the trucks that bring the bricks, beams, cement, etc., to build a house had to be specifically designed for one trip to the site, bought, thrown away, and added to the cost of the house by the builder.

In addition, manufacturing and service industries operate under somewhat different profit sources and risk considerations. One generally gets a one-time price and likes to have a specific buyer before building; the other gambles on repeated paying riders and cargoes for its profit. In the case of space transportation this situation has had a major impact on costs. It has led to builder/-operators looking to firm government contracts or subsidies in order to be sure they get paid not only for their vehicles but also for their future use. The throw-away nature of their product has stifled progress in increasing the reliability, availability, and safety of travel

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from earth to space for the past 30 or more years. The loser here has been American free enterprise and its ability to provide cost effective transport into space for civil speculators, investors, and would-be profiteers in ventures which access to space would otherwise now make attractive.

So long as there are no formal statements of U.S. national policy that clearly spell out the U.S. position with regard to the proper role of government versus free enterprise on the economic side; that recognize that U.S.'s exploitation of space in all but military areas is properly and primarily the role of free enterprise; and that NASA should be responsible for seeing to this, America will have NO real basic space policy. Furthermore, the U.S. can never hope to achieve and maintain U.S. supremacy in space so long as government insists on managing and controlling all civil space activities, let alone monopolizing any of these.

At this time America has a golden opportunity to exploit its technology due to the necessity of making major changes in national objectives and policies as a result of the demise of the Cold War. When it comes to the exploitation of space, a first step should be to get free enterprise actively involved and eliminate the existing near-total government monopoly.

Technical Considerations

The technological key to getting free enterprise into the exploitation of space for the benefit of the U.S. lies in making a sharp reduction in the cost of traveling from earth to space and back.[6,7,& 8] Current costs of accessing space with U.S. systems have driven commercial satellite-producing companies to use foreign launch facilities and have prevented serious consideration of all commercial space enterprises beyond the information areas of communications, navigation and sensing. Modest reductions in U.S. space transportation costs through veneer-like improvement to current systems will not alleviate this condition; only radical reductions will.

A radical reduction in space transportation costs depends upon the development of fully recoverable systems. Radical increases in safety depend upon developing aircraft-like vehicles that can return to earth or continue on their flight should they lose an engine or encounter other failures short of catastrophic. And systems that can be quickly refueled and turned around, in days if not hours, will open

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up the possibility of affordable repair, re-supply, rescue, replacement, and even assembly of space-based infrastructure for commercial uses.

Over the past two years the feasibility of developing fully recoverable vehicles to meet the demands of commercial space has become nearly indisputable in government and industry. Debate over the feasibility of such systems has been replaced by debate over configuration, development times, and costs. Some skeptics remain, but most of the criticism of fully recoverable single-stage-to-orbit vehicles (SSTOs) with quick turnaround and safe abort capabilities is rooted in fear of the impact these will have on the jobs of the thousands of bureaucrats now needed to rebuild and launch today's expendable rockets (ELV) and shuttles.

Advances in strength-to-weight ratios of materials have made feasible fully recoverable, low risk, highly reliable and routinely operated space launch systems. Such vehicles can expand the now limited payload market and reduce launch costs by at least one, probably two, orders of magnitude; i.e., to well under $500 per pound to orbit. Currently planned versions in the 10- to 20,000 pound-lift to "low Earth orbit" (LEO) class could accommodate eighty percent of today's world launch market.

The sharp cost reductions derive from the SSTO's inherent ability to operate in the manner of aircraft. Like commercial aircraft, if they experience engine or other mechanical failures, they would be able to burn off fuel and to land; i.e., they would also have an intact abort capability. This would not jettison costly components to reach orbit, and would return intact ready for check-out, maintenance, refueling and relaunch. These factors would result in a reduction in support personnel by over ninety percent compared to current launch systems, a reduction in insurance costs, and the option of operating from far less costly inland launch ports, since hazards caused by falling jettisoned stages and failed launches would all but be eliminated. With SSTOs, commercial space ventures will no longer be obliged to use coastal sites such as Cape Canaveral and Vandenberg Air Force Base. Much simpler launch facilities could be built to launch SSTOs either on our coasts or inland, and land-locked states could aspire to build and operate space ports.

Both government and commercial markets for space launch would obviously increase substantially with the advent of low-cost SSTO services. Once SSTOs were available, our military forces could

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expect immediate and continuous space-based reconnaissance to support land and sea operations anywhere in the world. The economies inherent in such cheaper, more reliable, and readily available vehicles would also obviously open space to commercial ventures such as tourism where profitability is highly dependent on safety, quantity, low transportation costs, and reliable scheduling.[9]

Vertical-landing SSTOs could be manned or unmanned and are well-suited for missions to and from extraterrestrial destinations – space stations, the Moon and other planets. An SSTO-derived vehicle could be refueled in orbit; from there it could proceed to the Moon and return to low Earth orbit, carrying 20,000 pounds each way. Further, engineers working on the vehicle have concluded that a 20,000 pound-lift SSTO could be scaled up to carry much heavier payloads to LEO if required. (A Lockheed experimental version of SSTO, a vertical takeoff, horizontal landing vehicle, is now being designed to carry twice the payload of the McDonnell Douglas SSTO.)[10]

Technology is now ready to produce a safe, reliable, and reasonably priced launch system that would enable space programs, both government and commercial, to provide a substantial return on investment. Both liberals and conservatives should welcome these. In the near term, their return will be in the form of increased national security at a lower price. Of even greater importance, they will open up space to exploitation by American free enterprise which, in turn, should ensure U.S. dominance in profitable commercial ventures in this vast new arena. The future size of the "market" is impossible to quantify – as impossible as it was in the 1930s to predict the tremendous impact of the famous "Gooney Bird," the DC-3, on the aviation market.

On Recovering U.S. Leadership in Space

If one accepts the importance of space to both the future security of the U.S. and its ability to retain if not improve the standard of living of Americans, a basic national space policy that recognizes these goals must now be written, debated, and accepted. One problem I see in doing this is to compromise and integrate what seem to be two very different attitudes and ideological views held, on the one hand, by space advocates, most conservatives, and a majority of the U.S. public, and on the other hand, by a relatively small but

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vociferous assortment of vested interests consisting largely of academics, do gooders, arms controllers and others who place ideological and social aspirations ahead of historical precedent, national interest, security risks, and the U.S. economic and world trade requirements that will determine the future standard of living for America.

Due to their diversity, it is probably unfair to categorize either side as conservative or liberal. Any policy written by the first group can be expected to give priority to commonsense, historical experience, and the inevitable role space will henceforth play in U.S. military strength and security. It would insist that we give U.S. free enterprise the primary role when it comes to exploiting space for commercial and other civil purposes, and it would seek a dominant role for the U.S. in any and all space activities. It would demand all space activities and spending be justified by their contribution to supporting these goals, that civil and military duplication be eliminated, and any international involvement in U.S. space activities be limited to that which will not impede their achievement.

On the other hand, the second group I described above would clearly like to have government monopolize all U.S. space activities in so far as politically possible. These in turn would then be strictly controlled and limited by bureaucrats and treaties. Advocates of this policy value international cooperation, the limiting of military space activities regardless of the risks to U.S. security, and a denial of free enterprise and private sector property ownership, competition, and profiteering in space. They would try to limit space and technological research and development so as to minimize obsolescence. That creates pressures for increased space versus social spending; for preventing the instability they see generated by new breakthroughs and inventions which are provocative, hence destabilizing; and for deferring technical progress that is hard for politicians to understand, let alone manage. This element tends to support the notion that space must be exploited only for "all mankind" as proposed in the 1967 U.N. Treaty[4] regardless of the impact on the future security and standard of living of individual peoples or nations.

Characteristics of a Sound Policy

Since we cannot very well compare conservative versus liberal views on space policy when these have never been formally stated in

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writing by either group, the next best thing I can do is to suggest what a logical, non-ideologically motivated, commonsense, and bi-partisan U.S. national space policy should seek to achieve. This issue has been under study by most space buffs and several groups and organizations in and out of government. Before the end of the Cold War, it was obvious that we needed such a policy to guide and focus spending on defense. Given the present deficit, the loss of the Soviet threat, the need to reduce government spending, technological advances especially in communications, and the loss by U.S. industry of over 50% of the worldwide space lift market within the last few years, such an effort is now urgent.

As previously mentioned, the best effort I know of to pull together a sound, basic, statement of U.S. national space policy at this time has been undertaken by the Space Transportation Association (STA)[1] in conjunction with High Frontier (HF)[2]. These efforts have identified some eight shortcomings in current and past U.S. space policy that they believe need to be urgently addressed if the U.S. is to enter the next century with a sound, viable policy and associated programs that will not only guarantee future U.S. security, but also insure that the U.S. gets as many economic, social, and other benefits as can be derived from technological progress in accessing and exploiting space.

Starting with the conclusion that today's policies and their shortcomings are not only the result of the change in the world environment and Cold War situation, but also stem from the fact that existing space programs evolved, primarily out of ad hoc decisions made at various levels of government – DOD, NASA, the White House, the V.P. Space Council, etc., with no basis for assessing their risks or long-term consequences, the experts on space have identified the following shortcomings, as needing priority considerations.

- As of now, the U.S. Space Community has not had any basic national guidance that clearly establishes that U.S. national interests – and specifically long term security and economic wellbeing – take priority over any other goals or considerations.

- Major new federal civil space programs are regularly rejected by Congress as not having value commensurate with their costs. Each has its own goals without relationship to any overall, long term, U.S.

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objective in space.

- Established space programs, such as Shuttle and the Space Station are under constant threat of funding reductions.

- U.S. space launch systems are becoming antiquated and are losing markets to foreign competitors.

- Twenty years ago the United States launched 100 percent of the world's commercial satellites. Today we launch under 30 percent.

- Aerospace industries are reeling under the impact of military cutbacks.

- Space projects are not designed to contribute most cost effectively to both civil and military requirements, leading to waste and duplication.

- And last but not least, the U.S. is not getting all of the economic and military advantages it could from a fully integrated space program unimpeded by special interest views and aspirations.

Comments on Shortcomings

In recent years there has been no agreement, or national policy, that establishes whether U.S. space activities should be *a consumer of revenues* or seek to be *a producer of revenues*. Even though the Cold War is over, the imperatives behind our space programs still seem to be: (a) Cold War one-upmanship, (b) national prestige, (c) science for science's sake and (d) the "wonder of it all." Given today's global environment and a national deficit that ordains tight budgets, these are obviously no longer strong enough to sustain a vigorous U.S. space effort. It is now high time that these imperatives be discarded in favor of justifications based upon return on investment to the taxpayer and that such returns include profit from commercial space ventures and increased national security. Bipartisan support for a U.S. space policy establishing the priority, if not exclusivity, of these two goals, in order to justify any funding of space activities, should logically be easy to obtain.

In 1933, thirty years after the Wright brothers' flight, the future of aviation was assured. Governments were pressing to advance

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aviation for national security reasons. Industry and commerce were pressing to make money with commercial aircraft. In all industrial nations aviation was going places – with plenty of money from private and public coffers.

Why? Because aviation was offering something of direct use to society – military protection, fast transportation, jobs and money for companies and individuals. But here we are in the '90s, more than thirty years after the first flight of man into space, with a loss of Cold War incentive and, with the exception of communications and sensing systems, practically no commercial space activity. We must learn from history and redesign our space programs to benefit those who pay for them – the taxpayers. Both liberals and conservatives should be able to agree on this.

This is what past administration space policies failed to do. Space programs have been repeatedly proposed by government, relying for public and Congressional support on the psychic rewards of accomplishment. Laudable goals, such as a manned mission to Mars, were proposed in the hope that the taxpayers, and thus Congress, would support them for the reasons they supported the Apollo Moon landings: national prestige, scientific knowledge, and the "challenge of it all." While such programs are worthy, public and Congressional support tends to evaporate as soon as their cost estimates come in. Programs such as the Space Station are classic examples of this. As a result, it is now in peril of cancellation through non-funding.

The public attitudes of the '60s, which supported U.S. space efforts, no longer apply in the '90s. A critical factor in the "national prestige" imperative was America's outpacing the now-defunct Soviet Union. Attempts to shift emphasis to "international cooperation and good will," such as making the Space Station or a mission to Mars a joint venture with the Russians, will never evoke the public or Congressional support that Cold War confrontation provided. Political and economic conditions in Russia now make joint ventures very risky. The old political imperative for the public support of expensive space programs died with the collapse of the USSR, and it cannot be replaced by one-world idealism.

The scientific community naturally stresses this imperative and hopes that the thirst for knowledge is strong enough in the body politic to sustain their version of a space program. This is normal but

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not enough in times when funding for research for research's sake clashes with the needs of declining military and social budgets. It is perfectly obvious that in a contest for billions of tax dollars between a mission to Mars, cancer research, or protecting Americans from an obvious missile threat, the taxpayer would go for cancer research and/or the protection imperative. Both liberals and conservatives should be able to recognize and act on these priorities.

With the prime imperative of Cold War rivalry having evaporated, and the auxiliary imperatives of science and adventure too weak to sustain public support, where do those of us turn who really believe that *space* is, in fact, the future? I suggest we now need a national space policy that demands all major space efforts serve either national security and/or free enterprise efforts to develop new markets and improve the U.S. economy, and through this, America's standard of living. If and when these priorities are returned to America's space efforts, a high degree of bipartisan support should be obtainable for these programs.

Until recently, high costs and the Cold War paradigm logically may have justified a government monopoly over U.S. space programs and policies. Splendid speeches have been made, papers written and even laws passed, demanding the involvement of the private sector in space activity. But, except for satellite communications and recently, remote sensing and navigation, they resulted merely in NASA or DoD contracting for those space activities needed to implement government-determined programs. These ranged from contracted research in support of Apollo to hiring aerospace companies to launch payloads. This was presumed to satisfy public and private sector aspirations to participate in exploiting space.

Government monopoly of space efforts runs counter to important traditional conservative attitudes. Conservatives in America have always expected their government to acquire and maintain world leadership for the U.S. in trade, technology and standards of living. They expect their armed forces to enjoy military superiority in all areas that count and to protect the nation from any and all likely forms of foreign military acts of aggression. They support American efforts to assure world peace and prosperity, and to protect individual rights and freedoms wherever and whenever these may be in jeopardy. To a great extent, our ability to form bipartisan space policies reflecting these traditional American attitudes will determine

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our role in the future exploitation of space .

Mankind's access to new frontiers has always been a major factor in the future success of societies that exploited the opportunities when they arose. While governments played vital roles in blazing the trails and insuring access to new frontiers, protecting the pioneers and their property, individual initiative and free enterprise decided the outcome in almost all successful cases. Opening and fully exploiting the new frontier of space will be no exception.

The nation or nations that first successfully exploit near-Earth space and the celestial bodies that are now accessible will largely influence global events during the next century. The United States must strive to be that nation. Having defeated the Fascist and Communist threats, we dare not and cannot allow any future potential enemies to assert control over U.S. access to space. They must never acquire the ability to deny us access to space. Our people understand and will support this. They also understand that we can only obtain the many economic benefits space offers if free enterprise is allowed to play a role, probably the major role in realizing these. If this role is established, policies and programs required to assure these goals will enjoy lasting public support. Conversely, space programs that cannot be identified with these fundamental objectives have little prospect of sustained support.

What We Should Do

The time has come to refocus this nation's policies and priorities towards achieving traditional goals. Our government must now open space to the general public and the private sector in the form of free enterprise. New technologies now in hand and emerging, along with the phasing out of the Cold War, have removed the principal constraints on the pursuit of practical goals in space, and enable both commercial and government programs that should be well-supported by the public directly and through its elected representatives.

Thus, any new basic national policy should emphasize decentralization of authority and management. It should direct that the government support commercial, free enterprise, involvement in exploiting space. Under today's policies, to the extent they exist, the emphasis has been on NASA's civil space programs, with commercial space activities accruing incidental side-benefits. The proposed U.S. policy would reverse this – commercial space operations would be

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emphasized with very large side-benefits accruing to NASA and military programs. In summary, overall national guidance should be developed, debated, approved on a bipartisan basis, and be operative by the year 2000 as necessary to insure that the following specific goals are met:

- Free enterprises, to include privately owned and operated space transportation companies, flourish;

- Spaceborne U.S. forces are deployed to include those best suited to defending the U.S. and its major allies against ballistic missiles, and defense of government and commercial space facilities; such military capabilities developed and controlled in concert with like-minded nations;

- Safe, routine, and convenient access to space by government and private companies is routinely available at reasonable cost and not unduly encumbered by national or international constraints;

- Methods of providing abundant energy to Earth from space, especially the Moon, are thoroughly researched and developed and, if found to be economically feasible, concrete plans laid to exploit the potential;

- Any and all duplication in roles, missions, systems, and activities should be eliminated as between the military and civil sector (NASA and DOD).

If the U.S. were to consistently pursue these simple, basic goals, the U.S. could dominate the use and exploitation of space for the foreseeable future and in a responsible manner. The dreams of those who would wish to go farther and further, (e.g., exploring other planets or mining the asteroid belt) will move closer to realization, and long-term U.S. security should be assured to an adequate degree, given the present world environment. Unfortunately, under the present Administration there is no indication that there is recognition of the need, let alone policy and funding decisions, to achieve these commonsense goals.

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Russia, the Caucasus, and Chechenya[1]

Nicholas Dima
Adjunct Professor, James Madison University

One of the most visible characteristics of the Russian people at the present time appears to be a fear of the unknown caused by the dismantling of the Soviet system. Another one, most evident at the center in Moscow and at the periphery of Russia, is the fear of losing the territory Moscow once controlled.

Having reached the Danube, the Caucasus Mountains, Central Asia, and other regions long populated before they began to expand, the Russians cannot reconcile themselves to the idea of withdrawing from these regions, or of staying in them as a minority, Moscow is reluctant to relinquish its conquests.

Consequently, it seems that Moscow and the Russians living outside their Federation or in non-Russian regions of Russia will do anything to keep those republics and regions tied to Moscow. They will continue to enhance local Russian privileges and to promote Moscow's geopolitical interests by dividing and inciting various ethnic groups against each other. If necessary, Moscow will send its own troops, especially if Russia itself is challenged.

Whereas it cannot be denied that ethnic animosities have always been present and were more acute in certain places, the territorial organization advanced under Stalin aimed from the beginning to give the Russians and the communists the upper hand and to make an ethnic break with Moscow extremely difficult.[2] However, the policies of *glasnost and perestroika* have been followed by a desire for independence, with the result that various Soviet republics and regions have challenged the *status quo*. This trend is now visible from Moldova to Tajikistan and in particular in the Caucasus, where several months ago the Chechen war broke out and shocked the world.

The Caucasian Scenario

When the Soviet Union was established, the entire Caucasian region was organized into a single republic. Later, it was split

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between Georgia, Armenia, and Azerbaijan, while the northern slopes of the mountains, where Chechenya is located, was incorporated into Russia. Given the physical fragmentation of the area and the slow process of ethnic consolidation, the boundaries between various nationalities were not clear cut, but Moscow did everything to perpetuate the feud and to keep everybody under control. The recent troubles in Nagorno-Karabakh, Abkhazia, North and South Ossetia, Kabardino-Balkar, Daghestan, and most of all Chechenya, reflect a struggle for local autonomy or independence on the one hand, and Moscow's maneuverings to hold the vast Soviet empire together on the other hand.

Nagorno-Karabakh, for example, was overwhelmingly populated by ethnic Armenians in the 1920s, but it was granted to Azerbaijan. As long as the U.S.S.R. was a strongly centralized country and no one was really independent, it made little difference that the region did not belong to Armenia. But once the two republics opted for independence, the Armenians launched a policy aimed at annexing Nagorno-Karabakh. Soon, war between the two republics erupted. The Russian military forces in the area played an ambiguous role to make sure that neither side prevailed. Most likely, Moscow wanted to legitimize its presence in both republics by showing that without it everyone would be at each other's throat. And as long as the two countries continue to fight, Moscow can rest assured that for the time being neither will truly leave the new Community of Independent States.

The case of Georgia is more complex, but it is also more illustrative. Georgia has on its territory two autonomous regions – Abkhazia, strategically located by the Black Sea, and South Ossetia, located on the southern slopes of the Caucasian Mountains near North Ossetia. The latter is part of the Russian Federation and sits on the northern slopes of the Caucasian Mountains. When Georgia was a reliable member of the Soviet Union, it enjoyed internal stability and the two minorities were quiet and rather well integrated. When Tbilisi proclaimed its independence in April 1991, it began to encounter problems. To bring it back to the Russian fold, Moscow first helped replace Zviad Gamsakhurdia, the freely elected president of Georgia, with the former Soviet Foreign Minister, Eduard Shevardnadze. But when Shevardnadze would not change the course of independence, certain circles began to stir up ethnic troubles in

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both Abkhazia and South Ossetia.

Abkhazia is an interesting case because only 17 percent of its half a million or so inhabitants are ethnic Abkhazians and Moslems, while 45 percent are Georgians and Christians. Yet, this did not prevent the Abkhazians in August 1992 from declaring their own independence, asking to be accepted into the Russian Federation, and waging war on the local Georgian authorities. Despite their numerical superiority, the Georgians could not win. Unexpectedly, the Abkhazians produced Russian-made tanks, armored cars, heavy and automatic weapons, and Russian volunteers. This prompted Shevardnadze to accuse Russia of aiding the rebels and of interfering in Georgian affairs. Georgia even appealed to the North Atlantic Organization for help and requested a special meeting of the United Nations Security Council.[3]

Many Georgians consider the Russian Federation as the main heir of both the Soviet Union and tsarist Russia, and they believe that Moscow's ultimate aim is to restore the former empire. Accordingly, they view the possible dismemberment of Georgia as the first step toward this end.[4]

Another case in point which strengthens the Georgian fear is South Ossetia. Ossetians are of Iranian origin and are rather pro-Russian. The land where most of them reside is divided between South Ossetia, part of Georgia, and North Ossetia, part of the Russian Federation. When Georgia began to take its independence from Moscow seriously, South Ossetia demanded to secede, to unite with North Ossetia, and to be admitted to the Russian Federation.

This time the quagmire took a new turn. The Ingush people, who were deported by Stalin from North Ossetia in 1944, began to reclaim their historic land. Backed by Moscow, the Ossetians asserted that the land belonged in fact to the Russian Cossacks. Fighting erupted, and to calm the situation Moscow imposed a state of emergency in November 1992 and sent in some ten thousand Russian soldiers. Nevertheless, the Ingush and their close relatives, the Chechens, have also declared their own independence, and the Chechens took their struggle for independence very seriously. All of these developments have complicated enormously the situation at an historic moment when Russia appears unable to solve its own problems.[5]

So far, Moscow has refused to recognize any independent states

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on its territory and has put together a new federal treaty, but it has encountered a very limited success. As a matter of fact, even some vast Russian provinces, particularly those autonomous ethnic regions located far from Moscow and which control rich resources, are demanding some sort of sovereignty and even dare to mention independence. The collapse of the old social, political, and economic system has brought about more local freedom on the one hand, and more demand for order and unity under a central control on the other. Leading Russian politicians are increasingly appealing to patriotism and are demanding the territorial restoration of the country. At the same time, many leaders insist that Moscow actively defend its fellow countrymen wherever they live in the former U.S.S.R.[6]

Russia in Transition

According to a top U.S. official, Russia seems to be in a difficult process of decolonization, and the humiliated Russian military is confused and angry. In 1992, for example, the previous Russian Parliament gave in to military and nationalist demands and voted to annul the 1954 transfer of Crimea to Ukraine and to support the secessionist drive of the Trans-Dnestr region of Moldova.[7] General Alexandr Lebed, the commander of the 14th Russian Army headquartered in Tiraspol, even dismissed Moldova's national revival as Romanian fascism, and he called directly for "the revival of the Russian great-power state."[8]

The transition to democracy in the Eastern bloc and the risk of returning to authoritarian regimes have posed delicate problems for the West. Ever since *perestroika* was launched, the United States and other Western countries have taken a conciliatory attitude toward Moscow. Following the dismemberment of the Soviet Union and the declarations of independence of various republics, Washington also took a cautious but realistic position. The American Government made it clear on many occasions that it expected a transition to democracy and free markets in the new republics, as well as full respect for human rights and protection for minorities.

The most difficult to cope with has been Russia, which has tried to reconcile two incompatible trends: building democracy and preserving its geopolitical interests. The ongoing conflict in Yugoslavia, for example, reveals Moscow's old geopolitical goals in

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southeast Europe. Referring to Serbia, Russia made it clear that any action in the Black Sea and Danube basin requires prior agreement from Moscow because these are areas of "traditional Russian interests."[9] Since Russia is located hundreds of miles away from the Danube, some Russian circles have bet on the self-declared Dnestr Republic as its best proxy in the Balkans. This republic is also used as a threat against Moldova (formerly Romanian Bessarabia) in case it decides to reunite with Romania.[10]

Similarly, Abkhazia appeared for a while to be the best Russian surrogate against Georgia. In this case, Russia's Defense Minister Pavel Grachev visited the local Russian military facilities, stressed the region's strategic importance for Moscow, met Abkhazian leaders, but refused to meet with Georgia's leaders.[11]

With regard to Central Asia, Russia's brutal attitude could not have been any plainer. When Tajikistan split and the local pro-Moscow communists were confronted with defeat, the Russians promptly stepped in. Their intervention left no doubts about their determination to keep the region. *The Washington Post* carried a long article titled "Tajik Communists Reclaim Power at Price of at Least 20,000 Dead," and the caption of a large, frightening picture reads: "A Russian mercenary for Tajikistan's National Guard killed a wounded rebel who was trying to cross over into Afghanistan."[12]

On February 23, 1993, the anniversary of the Soviet Armed Forces, thousands of Russian militants led by angry generals demonstrated in Moscow against current Russian policies and demanded the restoration of the "socialist homeland." Such events led two reputed American journalists, Rowland Evans and Robert Novak, to conclude that Moscow was introducing a "Monroe Doctrine" of its own, making the restoration of greater Russia its primary goal.[13] This is probably what some Russians call the new "sphere of Russian responsibility." On April 28, 1993, Yeltsin and the Russian Parliament signed a special document on national security doctrine which proclaims Russia's right to intervene militarily not only anywhere at the periphery of Russia, but in any of the 15 former Soviet republics as well, allegedly to defend the territorial integrity of Russia.[14]

For certain circles in Moscow the new world order must keep the old one in place. It may be just wishful thinking, but it also reflects the current political struggle in Moscow and a deep split

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among Russians. Should they give up the empire, embrace democracy, and become a normal country? Or should they try to preserve their 19th century conquests? This struggle and dilemma could last for decades unless Moscow changes its attitude quickly and radically. The Chechen war is only the most telling case.

The War in Chechenya

It could be said that the Russo-Chechen war started in the early 19th century and somehow never fully ended. At the core of the conflict is simply the rejection of a huge empire at one of its farthest corners of expansion by a small people of a different culture.

Russia annexed the Caucasus at the beginning of the 19th century, but it took decades to subdue the mountainous region inhabited by the fierce Chechen people. This is, for example, how Count Leo Tolstoy described the Russian takeover of Grozny in the summer of 1851: "... civilians of all ages brutally killed, houses destroyed, farmland ruined. As the Chechens laid out the bodies of their children in the local mosque, hatred was an inadequate word for what they felt toward the Russians. To merit hatred, one must be a human being, and in Chechen eyes, the cruelty of the attackers made them instead like 'rats, poisonous spiders or wolves,' so that 'the desire to exterminate them .... was as natural an instinct as that of self–preservation.'"[15]

The main centers of Chechenya succumbed in 1859, but the Russians did not really control the interior of the country for many more years. After the Bolshevik Revolution the Chechens tried to break away from Moscow again, and during World War II almost all of them were deported to Kazakhstan. They were allowed to return home only in the late 1950s, and many of them were born away from their original country. One of them was General Dzhokhar Dudaev, who was elected chairman of the Chechen National Congress in November 1990 and who on September 6, 1991, led Chechenya to declare independence.[16]

Chechenya is a small region on the northern slopes of the Caucasian Mountains and has some 1.2 million people. It is bordered by Georgia to the South, Russia to the North, North Ossetia to the Southwest, and Dagestan to the East. Dagestan is another autonomous republic within the Russian Federation and is also populated by a group of mostly Moslem peoples not necessarily

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friendly toward Russia. Most of Chechenya's inhabitants are Chechens, but a large percentage of them are Russians. From an economic point of view, the region is important because, among other things, it has some 25 percent of Russia's oil refining capacity. It appears, however, that for Moscow the greatest importance of Chechenya is geopolitical. This is enhanced by some of Dudaev's statements that his end goal is to create a North Caucasian Moslem republic.

If the economic importance of the Chechenya had seemed paramount, the Russian troops would have not destroyed it so thoroughly. And if Moscow had really cared for the ethnic Russians living there, it would have shown a more discriminate attitude when it stormed Grozny.

Russia may give up the former non-Russian Soviet republics. But Moscow is afraid that if it loses one corner of the territory that is administratively under the Russian Federation, it may lose many others as well. The historic pendulum that took the Russians from the Duchy of Moscow to the Danube, Caucasus, and Central Asia may one day be reversed. It is probably this gut-level fear that made the Russians commit atrocities against the Chechens in 1995 similar to those described by Tolstoy in 1851.

As in the case of Georgia and Moldova, Moscow first resorted to proxies to undo Dudaev's path of independence. The Russians helped an opposition group challenge what they labeled the illegal government in Grozny, but nothing could destroy the Chechens' determination to fight for freedom to the bitter end.[17] This made Yeltsin and his advisers resort in January 1995 to one of the most savage recent wars. Eventually, the Chechen fighters abandoned Grozny for the mountains, but they have not given up. They only lost a round while the West watched almost in complicity.[18] And what did Moscow accomplish by applying a drastic military cure to an elusive political problem?

Further Ethnic Complications

Military solutions could be applied quite swiftly by superpowers. An air strike, for example, could reach a given target in a matter of minutes. A full-scale land intervention could be accomplished in a few weeks. Yet, they cannot substitute political settlements. Moreover, ethnic processes which last hundreds of years often defy

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quick political solutions.

The Caucasus area is a maze of ethnic groups, sub-nations, and well-developed nationalities hard to match almost anywhere else in the world. Some of these populations are only a few hundred individuals strong, but others number in the millions. A few of them have rich traditions and all the attributes of nationhood while others will never make it on their own.

Throughout history, the Russians have arrested the natural evolution and maturation of larger nationalities, and occasionally have split them in different groups. At the same time, the Russians have strengthened artificially small and inviable ethnic groups, while often pitting nation against nation.

The Chechens are one of the largest peoples of North Caucasus. According to the 1989 Census, they numbered about one million, while the Ingush numbered an additional 240 thousand. Before Chechenya declared its separate independence, the two groups had a common autonomous republic with a land area of 19.3 thousands of square kilometers. By comparison, neighboring Dagestan has 50 thousand Sq. Km., but its dominant ethnic group, the Avars, are only 600 thousand and make up a mere third of their republic's population. The Kabardines and the Balkars are 391 and 85 thousand strong respectively, and share a common republic west of Chechenya and North Ossetia.

Except for the Ossetians, the native North Caucasian peoples hold to the Moslem faith and share a deep resentment for the Russians and for their way of life. In the vision of the Chechen leader Dzhokar Dudaev they should join together and make their own independent federation stretching from the Black Sea to the Caspian Sea.[19]

The Ossetians are of the Christian Orthodox faith and as a rule they side with the Russians. They number about 600 thousands in North Ossetia, and 90 thousands in South Ossetia. When Georgia declared its independence of Moscow, South Ossetia, supported by Russia and North Ossetia, revolted against the Georgian authorities. That made the Ingush people, who claim that the Ossetians took over their ancestral land, rise against them. The Chechen leaders, however, preferred to court the Ossetes, in order to prevent them from joining Russia. That, in turn, made the Georgian president welcome the Russian military intervention in Chechenya.[20] The

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Caucasian maze is thus like a house of dominoes: one moves a piece and everything tumbles.

Russia succeeded so far in bringing a modicum of peace to the region, but this has not been done through any consensus. As often in Russian history, it has been achieved by force and sheer destruction. From an economic point of view, the entire Caucasian area has been crippled for decades to come. While the Russian troops invaded Chechenya, most of its Moslem neighbors waited in a state of shock. If they learned anything, it was probably that they could not confront Russia alone; yet, they also learned from Dudaev that they cannot beg independence from Russia, they must fight for it.

If the Chechens had anything in common with the Russians, it was ruined by this invasion. The Russian military campaign sowed a new wave of hatred which will endure for another hundred years. This is hardly a good beginning for a lasting peace in a region where family revenge and vendettas, are as old as people can remember.

Conclusion

The world at the turn of this century is a world of contradictions: ethnic fragmentation at a micro scale, and regional integration and global interdependence at a macro scale. Contemporary nation-states may lose some of their attributes for the sake of future harmony, but nations, cultures, languages, religions, are not likely to vanish or to merge into a homogeneous global family. To foster a more stable world, the advocates of the new world order may try to by-pass small nations, but the Chechen war has just proved how stubborn nationalism can be. Until people acquire a global conscience, if ever, accommodation will have to be made in many regions of the world.

Is there a solution to the ethnic and geopolitical conflicts in Russia or anywhere else in the former Soviet Union? The answer is yes. Find political solutions to territorial disputes! Any other choice can be disastrous. A persistent attempt in Moscow to return to the old empire could ruin Russia's economy and throw it into chaos. A replay of the 1917-1920 events could follow with dire consequences. A democratic Russia, on the other hand, will have to compromise and renounce any far-away geopolitical ambitions. Instead of trying to preserve the former Soviet land, Moscow should concentrate on its

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own non-Russian periphery and attract it into a true community of economic interests. Later, future generations of Russians will have to adjust to the new realities, while the non-Russians will have to decide whether to stay within a Russian federation, or to establish their own small "Chechen" states.

One of the most visible characteristics of the Russian people at the present time appears to be a fear of the unknown caused by the dismantling of the Soviet system. Another one, most evident at the center in Moscow and at the periphery of Russia, is the fear of losing the territory Moscow once controlled.

Having reaching the Danube, the Caucasian Mountains, Central Asia, and other regions long populated before they began to expand, the Russians cannot reconcile themselves to the idea of withdrawing or to staying and living as a minority, while Moscow is reluctant of relinquishing its conquests.

Consequently, it seems that Moscow and the Russians living outside their Federation or in non-Russian regions will do anything to keep those republics and regions tied to Moscow. They will continue to enhance local Russian privileges and to promote Moscow's geopolitical interests by dividing and inciting various ethnic groups against each other. And if necessary, Moscow will send its own troops, especially if Russia itself is challenged.

Whereas it cannot be denied that ethnic animosities have always been present and were more acute in certain places, the territorial organization advanced under Stalin aimed from the beginning to give the Russians and the communists the upper hand and to make an ethnic break with Moscow extremely difficult. However, the new policies of *glasnost* and *perestroika* and the ensuing desire for independence of various Soviet republics and regions have challenged the *status quo*. This trend is now visible from Moldova to Tajikistan and in particular in the Caucasus, where recently the Chechen war broke out and shocked the entire world.

Endnotes

1) Throughout this article, Chechenya is spelled in a manner which corresponds more closely to the pronunciation favored by the Chechens, rather than the spelling Chechnya, used by the Russians.

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2) For a general background to the Soviet-controlled nationalities see: Walter Kolarz, *Russia and her Colonies* (New York: Praeger), 1953; Paul E. Lydolph, *Geography of the USSR* (New York: John Wiley and Sons Inc.) 1970; and Robert A. Lewis, Richard H. Rowland and Ralph S. Clem, *Nationality and Population Change in Russia and the USSR* (New York: Praeger), 1976.
3) See among others "Abkhazian Rebels Call Georgians Invaders," *Washington Post*, 7 November 1992.
4) Joan Beecher, "Russia and Northern Caucasus," and "Russia/Georgia," *Voice of America Radio Report*, 7 October 1992, and 5 November 1992.
5) "An Ethnic Nightmare in the Caucasus," *Newsweek*, 7 December 1992.
6) "Marching to the Old Tunes," *Washington Times*, 28 July 1992; "Russians Cope with Area of Crisis," *Christian Science Monitor*, 22 June 1992.
7) "Russia versus the Republics," *U.S. News & World Report*, 22 June 1992.
8) "Lebed Addresses Cossak Assembly," *Radio Free Europe Daily Report*, 18 August 1992.
9) "Russia Asserts Interests on the Lower Danube," *Radio Free Europe Daily Report*, 23 February 1993; "Serbia and Moscow Connection," *Washington Post*, 24 February 1993.
10) Nicholas Dima, *From Moldavia to Moldova: The Soviet-Romanian Territorial Dispute* (New York: Columbia University Press), 1991.
11) "Grachev in Georgia," *Radio Free Europe Daily Report*, 1 March 1993.
12) "Tajik Communists Reclaim Power ...," *Washington Post*, 5 February 1993.
13) "Kremlin Coup Figures Join Anti-Yeltsin Rally," *Washington Post*, 24 February 1993; "Russia's Monroe Doctrine," *Washington Post*, 26 February 1993.
14) Ed Warner, "Conflict in the Caucasus," *Voice of America Radio Report*, quoting Paul Goble, formerly of the State Department who cited a recent Russian source (p. 11, May 7, 1993).
15) *Washington Post*, 15 January, 1995.
16) Peter Collins, "Chechenya/ Dudaev," *Voice of America Radio Report*, 19 January, 1995.
17) "Chechen opposition attack on Grozny fails," *Radio Free Europe Daily Report*, 28 November 1994.
18) Zbigniew Brzezinski, "Moscow's Accomplice," *Washington Post*, 8 January 1995.
19) *Soyuz*, No. 32, August 1990.
20) "Shevardnadze Supports Russian Action in Chechnya," *Radio Free Europe/ Radio Liberty Daily Report*, 19 December 1994.

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Toward Equality and Justice in Labor Markets

Charles W. Baird
California State University, Hayward

> The Norris-LaGuardia and Wagner Acts will, I predict, come to be regarded by future historians as economic blunders of the first magnitude. They were worked for and acquiesced to under motivations of almost unparalleled sordidness and cynicism combined with the highest, misguided idealism.
>
> W. H. Hutt[1]

In the U.S. context, two necessary, but not sufficient, conditions for moving toward equality and justice in labor markets are repeal of all the 1932 Norris-LaGuardia Act (NLA) and most of the 1935 National Labor Relations Act, as amended (NLRA). While there is room in the free society for voluntary unionism, there is no room for the special privileges granted unions under the NLA and NLRA. To the extent that the U.S. is taken as a model for newly emerging, democratic, and market-based economies, this paper can be regarded as an essay on mistakes to be avoided.

In what follows I first define voluntary exchange, a concept that is fundamental to a correct understanding of equality and justice. Then I consider alternative meanings of equality and justice, and explain the sense in which I use those terms. Next, I explain the features of the NLA and NLRA that are inconsistent with a correct understanding of those principles. Finally, I propose an agenda for reform of American labor relations law that I also offer as a model for newly emerging market economies.

I. Voluntary Exchange

An exchange is a reciprocal giving and receiving of goods and services among two or more people. An exchange is voluntary if four

[1] Hutt, W. H., *The Strike-Threat System: The Economic Consequences of Collective Bargaining*, Arlington House, New Rochelle, NY, 1973, p. 23.

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criteria are simultaneously met.[2]

a. *Entitlement*. All parties to the exchange must either own that which they are offering to exchange, or they must be acting as the authorized agent of the owner(s). There is no such thing as voluntary exchange of stolen property.
b. *Consent*. All parties to the exchange must agree to (i) enter into the exchange relationship – i.e., to bargain with each other – and (ii) the terms at which any actual exchange takes place – i.e., the final outcome of the bargaining. No forced bargaining can result in a voluntary exchange.
c. *Escape*. All parties to the exchange must be able to turn down any offers they do not like and walk away without losing anything to which they are entitled. This is really implicit in the consent criterion, but I state it as a separate criterion for emphasis.
d. *No misrepresentation*. No party to the exchange may defraud any other parties. That is, no one can tell a lie. This leaves room for honest error. I can make any claim that I believe to be true when I make it, even if it turns out later to be incorrect. Moreover, this criterion does not require the parties to tell all they know. It merely proscribes any person saying something he knows to be false.

Hayek often asserted that the primary responsibility of government in a free society (or liberal order) is to enforce the "universal rules of just conduct." I suggest that those rules are nothing more or less than the rules of voluntary exchange.

II. Equality and Justice

"Equality" and "justice" mean different things to different people. Hayek defines them as they were understood by the Framers of the U.S. Constitution. Today, most academicians, journalists and politicians, define them as they were understood by the authors of the NLA and the NLRA.

According to Hayek[3], equality means what the ancient Greeks

[2] See Baird, C. W., "The Varieties of 'Right to Work': An Essay in Honor of W. H. Hutt," *Managerial and Decision Economics*, Winter 1988, Special Issue, pp. 33-43.

[3] Hayek, F. A., *The Constitution of Liberty*, University of Chicago Press, Chicago, 1960, Part I.

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meant by the word *isonomia* – equal treatment before the law. The U. S. Constitution embodies this view of equality in its "equal protection" and "due process" clauses. Thomas Jefferson embodied this view in the Declaration of Independence by declaring that "all men are created equal," and are "endowed by their Creator with certain unalienable rights." In other words, all individuals, irrespective of government, have exactly the same set of rights. Thus government must treat all people alike.

Robert Nozick[4] refers to this as "process equality." But it is not just any old process (or set of rules) to which all individually are subject. Rather, all individuals are identically subject to the universal rules of just conduct; or, as I like to put it, to the rules of voluntary exchange.

According to the *isonomia*, or process, view of equality, government may not grant special privileges to, or impose special burdens upon, any individual or group of individuals. All individuals and groups are constrained to obey the rules of voluntary exchange. Government is constrained to enforcing those rules. Government is forbidden to intervene in the voluntary exchange process to bring about particular end-state results. As Hayek[5] put it, "the basic postulate of a free society" is "the limitation of coercion by equal law." In other words, the limitation of involuntary exchange by equal law.

Nozick calls the contrary view of equality, the view embraced by the authors of the NLA and the NLRA, "end-state equality." According to this view, what matters is outcomes of human action. "Equality" among people is increased when the differences between their incomes or standards of living are decreased. Both Hayek and Nozick point out that this second idea of equality is not just different from the first, it is incompatible with the first. Voluntary exchange naturally results in unequal outcomes because, although all people are endowed with the same set of rights, they are not endowed with the same set of mental and physical abilities, luck, attitudes and alertness. If government intervenes in the process of voluntary exchange to bring about more equality in the second sense than

[4] Nozick, Robert, *Anarchy, State, and Utopia*, Basic Books, N.Y., 1974, Chapter 8.

[5] Ibid, p. 88.

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would naturally occur, government must treat people with unequal voluntary exchange outcomes unequally. Government must discriminate against those with better voluntary exchange outcomes in favor of those with worse voluntary exchange outcomes.

Justice also has two meanings, and the distinction between its two meanings has the same basis as the distinction between the two meanings of equality. First of all, justice is a concept that applies only to human actions. A tree cannot be just or unjust. Moreover, justice refers to actions involving two or more people. An isolated person is neither just nor unjust if his actions do not affect any other people.

The Framers of the U. S. Constitution thought that justice exists when all interactions among people are based on voluntary exchange. What mattered to them was the *process* of interaction, not its outcomes. This is what the ancient Greeks referred to as "commutative justice." Nozick calls it "process justice."

The second definition of justice is what the Greeks called "distributive justice," and Nozick calls "end-state justice." There is more justice, or less injustice, in the second sense when there is more end-state equality.

Again, as Hayek and Nozick pointed out, the first and second definitions of justice are incompatible. Inasmuch as people are endowed with unequal intelligence, alertness, physical ability, interests and endurance, voluntary exchange will inevitably yield unjust, in the second sense, outcomes. This injustice can only be remedied by coercive transfers which are unjust in the first sense.

My evaluations of the NLA and the NLRA are based on the first definitions of equality and justice. The basic problem is that the authors of those Acts constructed them purposefully to pursue the second definitions of those principles.

III. The Norris-LaGuardia Act

A. *Historical Background*

The NLA was passed and signed into law by President Hoover in 1932. This, of course, was in the midst of the economic collapse of 1929-1933 that became the Great Depression. Hoover was desperate to do something about the crash, and he fell prey to the special interest pleading of the American Federation of Labor as well as the purchasing power fallacy of the time. That fallacy was the idea that

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high wages were necessary in order for workers to have enough purchasing power to buy all the goods and services they help to produce. Actually, between 1929-1933, nominal wages were falling, but money prices of goods and services were falling even more, thus real wages, workers' purchasing power, were increasing.[6] Unfortunately, the purchasing power fallacy is still with us. Notwithstanding the valiant efforts by economists such as W. H. Hutt[7] to educate them, American unionists and benighted politicians use it all the time to justify the extension of compulsory unionism.

Starting in 1890, when the Sherman Antitrust Act was enacted, unions tried to be exempted from its provisions. They finally succeeded in 1932. The Sherman Act is based on the common law rule against combinations in restraint of trade.[8] Its actual application in U. S. history has tended to favor particular competitors rather than the process of competition.[9] Whatever the merits of antitrust legislation, process equality requires that if combinations of employers in restraint of trade are to be proscribed, combinations of employees in restraint of trade ought also to be proscribed.

In 1914 President Wilson thought he had arranged to exempt unions from prosecution for actions which restrained the voluntary exchange rights of others by signing the Clayton Act. But, in 1921, the U.S. Supreme Court, whose members then still believed in process equality and process justice, interpreted the Clayton Act to provide protection to unions only for their lawful acts. Illegal restraints of trade in, for example, secondary strikes and boycotts, and in situations involving threats and actual use of violence, were held to be actionable (*Duplex Printing Co. v. Deering*, 254 U.S. 443) .

[6] Vedder, Richard K. and Gallaway, Lowell E., *Out of Work: Unemployment and Government in Twentieth Century America*, The Independent Institute, Oakland, CA, 1993.

[7] Hutt, W. H., *The Theory of Collective Bargaining 1930-1975*, Cato Institute, Washington D.C., 1980, and *A Rehabilitation of Say's Law*, Ohio University Press, Athens, 1974.

[8] Petro, Sylvester, *The Labor Policy of the Free Society*, Ronald Press, New York, 1957.

[9] Armentano, Dominick T., *Antitrust and Monopoly: Anatomy of a Policy Failure*, John Wiley & Sons, New York, 1982.

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Moreover, in the same year the Court held that (a) mass picketing, even in primary strikes, was inherently intimidating so that pickets must be limited to one picket per entrance; (b) that pickets had to be actual employees on strike, they could not be strangers sent from union headquarters or anywhere else; and (c) the right to conduct a business is a property right, entitled to the same protection against trespass as any other property right (*American Steel Foundries v. Tri-City Central Trades Council*, 257 U.S. 184).

B. *The Way It Ought to Be*

In a free society all workers are permitted to affiliate with any labor unions that are willing to receive them. Labor unions are private, voluntary associations of their members. As such they are subject to the same rules of voluntary exchange as everyone else. In a free society, government does nothing to coerce workers to join unions or to remain union-free. Government treats unionized and union-free workers exactly alike – i.e., government neither favors nor burdens either group. Similarly, the process notions of equality and justice imply that employers have a right, without force and fraud, to resist unionization or endorse unionization. Moreover, while workers are free to offer to bargain with employers collectively through unions, employers are free to decline such offers.

The process notion of equality requires that unionized and union-free workers receive equal protection of the laws. While any individual worker has a right to withhold his own labor if he doesn't like the terms of trade offered by an employer, and while a group of workers who each want to withhold their labor from a particular employer may do so together, no worker or group of workers has a right to withhold the labor of workers who are willing to do the job the strikers have refused to do. Insofar as a strike is merely a collective withholding of labor from an employer by like-minded workers, a strike is consistent with process equality and justice. Insofar as a strike also involves attempts, by actual and threatened acts of picket line violence, to prevent willing, union-free workers from entering into an employment relationship with an employer who is willing to hire them, a strike is inconsistent with process equality.

Any picketing by employees or strangers that impedes access of replacement workers, suppliers, and customers to the premises of the struck firm is a violation of the common law proscription of trespass

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and is properly viewed as a combination in restraint of trade. That is why the Court, in the *Tri-City* case, limited pickets to one per entrance.

However, the one picket per entrance rule is subject to the objection that if the picket is located on the employer's property, and if the employer has not given permission for the picket to be there, that, too, is an act of trespass. The Court authorized one (even trespassing) picket per entrance to accommodate the Clayton Act that explicitly made peaceful picketing in primary strikes legal. The Court did not have the courage of its apparent common law convictions on the point.

The reason the Court prohibited picketing by strangers in the *Tri-City* case was that it recognized that with stranger picketing, third parties, who have no contractual relationship with target firms, could draft both employees and employers into combinations in restraint of trade designed to fix prices and/or wages in a whole industry. In other words, stranger picketing was seen by the Court as a cartelizing device.

The right of freedom of contract (recognized by pre-New Deal Courts as one of the "privileges and immunities" and part of the "liberty" guaranteed by the Constitution) implies that employers may make any voluntary exchange offers they wish to any workers who are willing to entertain such offers. (Recall the four criteria of voluntary exchange.) For example, an employer may make an offer of employment contingent on the job applicants' promise to refrain from any and all union activity. Such union-free agreements were legal and enforceable prior to 1932. They were called "yellow dog" contracts. Similarly, an employer may make a job offer contingent on the applicants' willingness to join a union either before or after employment begins. Some union-only contracts are legal today. They usually are called union shops. (However, the union-only contracts that are legal today are not voluntary exchange arrangements. I will discuss this issue in Section IV, Part E, below.)

C. *Provisions of the Act*

The NLA begins with a Declaration of Public Policy wherein it is asserted:

> [T]he individual unorganized worker is commonly helpless to

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exercise actual liberty of contract and to protect his freedom of labor, and thereby to obtain acceptable terms and conditions of employment ....

This idea of the helpless worker who needs unions for self defense was the primary excuse used to pass both the NLA and the NLRA. It is a hoary myth. As W. H. Hutt[10] and, later, Morgan Reynolds[11] have demonstrated, data falsify the myth. In the nineteenth century, long before the existence of significant unionization in the U.S., real wages were on a strong upward trend, and worker-initiated job switching was frequent and became increasingly common. Contrary to the view that says large scale employers exploited unorganized workers, workers in large firms were paid more than workers in small firms. Contrary to the claim that employers had more bargaining power than unorganized workers because those workers had no assets to fall back on if they turned down poor job offers, workers with savings weren't able to bargain for better wages than workers with no saving. Finally, contrary to the conventional wisdom that unions were necessary to offset employer combinations designed to keep wages low, most employer associations were formed in self defense against unions that had already been formed to attempt to take wages out of competition.

Nevertheless, on the chimerical grounds of the helpless, unorganized worker, the NLA made five substantive changes in labor relations law which made it almost impossible for employers to oppose unionization. Of course, the authors of the Act thought they were acting in the interest of equality and justice – end state equality and justice. To do so they denied process equality and justice to employers and workers who wished to remain union-free.

First, the NLA made yellow dog, or, as they are more appropriately called, union-free, contracts unenforceable in federal courts. The voluntary exchange right of employers to enter into binding contracts with willing workers who promised to refrain from unionization was wiped out. Employers were effectively forbidden to

[10] Hutt, W.H., *The Strike Threat System*, op. cit.

[11] Reynolds, Morgan O., *Power and Privilege: Labor Unions in America*, Universe Books, New York, 1984.

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boycott union labor. But unions were not forbidden to boycott nonunion labor. Moreover, workers who wanted to remain union free were denied an important means of achieving that end.[12]

Second, the NLA prohibited federal judges from issuing any injunctions to interrupt strikes, even violent strikes. Oh, of course the language was not that bald, but the conditions imposed on employers to prove violence were so onerous as to make unions immune to injunctions to stop violence.[13] If replacement workers were beaten, no federal judge could do anything about it. It was left to the, frequently outnumbered, local law enforcement agencies to worry about violence against persons and property. Section 7(c) of the NLA says that an injunction cannot be issued unless the court has taken testimony, with witnesses subject to cross examination, and has found "that as to each item of relief granted greater injury will be inflicted upon complainant by the denial of relief than will be inflicted upon defendants by the granting of relief." In other words, courts are forbidden to stop aggression unless the damage to the victim is larger than the damage suffered by the aggressor as a result of the order to stop the aggression. So much for the fundamental responsibility of government to protect the voluntary exchange rights of everyone while favoring no one. In America such egregious violations of common sense and process equality and justice can be found only in labor relations law. In America there is a genuine apartheid of labor law.[14] There is ordinary law for all other people and groups, but a very special law, set apart from ordinary law, for unions and unionized workers.

Third, the NLA gave blanket immunity to labor unions against prosecution under the antitrust laws. Nothing done by labor unions, even if violence were involved, could be enjoined as illegal

[12] As Morgan Reynolds, Ibid., has demonstrated, pp. 98-100, "yellow dog" contracts were sometimes initiated by employees who wished to use them as excuses for not talking with union organizers.

[13] Dickman, Howard, *Industrial Democracy in America*, Open Court, LaSalle, IL, 1987, pp. 238-241.

[14] This term was coined by Vieira, Edwin, "From the Oracles of the Temple of Janus: *Chicago Teachers Union v. Hudson*," *Government Union Review*, Summer 1986, pp. 1-37, at 35.

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combinations in restraint of trade. Thus, to this day, General Motors, Ford and Chrysler are forbidden to form combinations to take the prices of automobiles out of competition, but the employees of those firms are actually encouraged to form combinations to take autoworkers' wages out of competition. There is clearly no such thing as equal protection of the laws when it comes to labor relations law.

Fourth, the NLA gave legal standing to strangers in labor disputes. Thus a company with 150 employees on strike and 700 employees that wish to continue to work can be forcibly shut down by 5000 picketers sent from union headquarters.[15] That intimidates many small firms into not resisting the blandishments of union organizers.

Fifth, the NLA insulated labor unions as organizations from any prosecution for any acts committed by any individual members and officers. Suppose that some picketers murder a replacement worker who crossed a picket line. The union could not be blamed. Even if the perpetrators were apprehended by local officials and convicted by local courts, no punishment could be imposed on the union. In other words, the common law doctrine of *respondeat superior*, or vicarious responsibility, was made inapplicable to unions. If I am driving a delivery truck for my employer, and I run down a pedestrian, I and my employer are held liable. But if I am walking a picket line at the behest of a union, even if I am not an employee of the struck firm, and I kill someone by hitting him over the head with a hammer, I am liable (if the local authorities are brave enough to oppose the union and enforce the law) but the union is not. Again, so much for process equality and justice.

The practical effects of the second, third, fourth and fifth items are well illustrated in the case of *Apex Hosiery Co. v. Leader*, 310 U.S. 409 (1940). The employer was operating on an open shop basis. The union wanted to force all 2500 employees to unionize. Eight employees who were union members, joined by members of the same union who were employed by *other* firms (i.e., strangers to Apex), undertook a sitdown strike. In other words, they occupied the premises of the employer, prevented willing employees from working,

[15] This happens all the time. For example, see Baird, C. W., "A Tale of Infamy: The Air Associates Strikes of 1941," *The Freeman*, April 1992, pp. 152-159.

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and proceeded to destroy machinery on the shop floor. The company applied for an injunction against the union on Sherman Act grounds of a violent combination in restraint of trade including trespass on private property. In the end the U.S. Supreme Court denied the company any relief by claiming that the NLA protected unions from any antitrust prosecution. In the words of the Court, "Restraints not in the [Sherman] Act when achieved by peaceful means, are not brought within its sweep merely because, without other differences, they are attended by violence." There is neither equality nor justice in that story.

IV. The National Labor Relations Act

W. H. Hutt held that, "Lying preambles are all too common in acts of Congress and acts of Parliament."[16] The NLRA is a perfect example of Hutt's dictum. Its preamble says, in part, that:

> It is hereby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and eliminate those obstructions when they have occurred by encouraging the practice and procedure of collective bargaining and by protecting the exercise by workers of full freedom of association, self organization, and designation of representatives of their own choosing, for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection.

Set aside, for purposes of this paper, the undisputed fact that since the adoption of the NLRA the incidence of strikes and other "obstructions to the free flow of commerce" has greatly increased. The NLRA does *not* "encourage" the practice of collective bargaining, it *compels* collective bargaining. It does *not* protect workers' "full freedom of association," it abrogates that freedom in egregious ways. It does *not* assure that workers are able to designate "representatives of their own choosing," it denies workers their individual freedom of choice. And the NLRA does all these things in the name of end-state equality (of course, its proponents just use the term "equality") and justice by extinguishing process equality and justice.

[16] Hutt, W. H., *The Strike Threat System*, op. cit, p. 286.

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A. *Exclusive Representation*

Consider, first, the issues of freedom of association and choice of representatives. Section 9(a) of the NLRA creates "exclusive representation" as the cornerstone of labor relations law. Under this doctrine, if in a certification election a majority of workers in a bargaining unit vote to be represented by Union A, then *all* the workers who were eligible to vote must submit to those representation services. Union A, by force of law, represents not only the workers who voted for it, but also the workers who voted for another union, the workers who voted to remain union-free, and the workers who did not vote. It is a winner-take-all election rule. Individuals are prohibited even from representing themselves on terms and conditions of employment and other matters that come under "the scope of collective bargaining." The United States and Canada (which copied the U.S.) are the only two advanced, industrial countries in the world with exclusive representation.

Unionists justify exclusive representation by saying that majority rule is "democratic." In a congressional election the winning candidate in a congressional district is the exclusive representative of all voters in the district. Even voters who voted against him and those who didn't vote must accept the winning candidate as their exclusive representative in the House of Representatives. By analogy, unionists argue, it is proper to make all workers accept the representation services of a union selected by majority vote.

But the analogy is not apt. Unions are not governments. In classical liberal thought, democracy is an institution that developed as a means of limiting governments. Governments are natural monopolists of the legal use of force in their respective jurisdictions. Like all monopolists, they are prone to abuse their power. Democracy is a means by which the governed have some (very imperfect) control over those who wield governmental power. Compulsory submission by individuals to the will of a majority is justified only in constitutionally authorized governmental activities.

In the private sector, in contrast, individuals are free to make their own choices irrespective of what a majority of others may prefer. An individual is not forced to submit to the will of a majority in determining which attorney will represent him in court; but, under the principle of exclusive representation, an individual is forced to submit to the will of a majority in determining which agent will

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represent him in the sale of his labor.

Moreover, unionists don't carry the analogy far enough. Politicians have to face regularly scheduled re-election. Unions do not. Once a union is certified as an exclusive bargaining agent by a majority vote in a certification election, it is presumed to have majority support indefinitely into the future. It never has to face a re-election even if all of the workers who originally voted for the union are no longer employees of the firm.

There is a decertification process, but there are no regularly scheduled re-elections. The decertification process requires that employees, and *only* employees initiate a petition requesting a vote on whether to decertify the union. The signatures must be collected on a face-to-face basis by employees. Employers are forbidden to have anything at all to do with the process. If enough signatures are collected (at least thirty percent), then there is a secret ballot on the question. It is as if Bill Clinton would be president forever unless a petition were circulated to call for an election on whether to fire him or not.

There is substantial process inequality between certification and decertification elections. In the former, unions and strangers (union organizers) may initiate and execute the whole process. In the latter, employers and strangers are forbidden to play any role whatsoever. Only employees may initiate and execute the process. Employers, or any agents of employers, are forbidden to participate. Many successful decertification elections have been set aside by the National Labor Relations Board (NLRB) because they were "tainted" by employer involvement.[17]

Exclusive representation is a violation of the entitlement condition for voluntary exchange. It is a denial that an individual owns his own labor. It is an assertion that a majority of fellow workers own his labor. Only they can bargain with the employer about the sale of his labor. He is forbidden to do so himself. If justice requires that people interact with each other only on the basis of voluntary exchange, exclusive representation is not just.

Nor is it consistent with the principle of equality. If all individuals are endowed with equal rights which it is the primary duty of

[17] See, for example, two 1992 NLRB decisions -- in *Caterair International* and in *Lee Lumber and Building Materials Corp.*

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government to defend, all individuals must remain free to make their own choices regarding which offers to make and accept in the labor (and every other) market. If all individuals are equal, the choices of no group can take precedence over the choices of any individual (except insofar as the individual consents to defer to the group, as in private clubs). Unions can be regarded as private clubs, but they have been given the privilege of exclusive representation by force of law, not by the consent of each individual they represent.

Under exclusive representation workers are forced, under penalty of losing their jobs, to associate with unions supported by a majority of their fellow workers. I am "associated" with a union if that union represents me in the sale of my labor. If I do not consent to that representation, my freedom of association, another implication of equal rights, is denied. A unionist might say that I can escape this association by giving up my job, but that runs up against the escape condition for voluntary exchange which requires that I can turn down any offer of association I wish without losing anything to which I am entitled. If all individuals have equal rights, I have a right to an employment relationship with any willing employer notwithstanding the desires of third parties. If the only way I can escape the representation services of a union is to break my employment relationship with a willing employer, I am losing something to which I am entitled.

B. *Free Speech*

Section 8(c) of the NLRA states that during campaigns leading up to certification elections, unions and management have free speech rights except if the speech contains a "threat of reprisal or force or promise of benefit." Case law has determined that this means that employers cannot offer any benefits as an inducement for workers to vote against a union, but unions can promise benefits as an inducement for workers to vote for a union. The fig leaf that is used to cover this blatant process inequality is that the union is promising benefits that will come from the *employer* (e.g., higher wages), not directly from the union treasury.

C. *Company Unions*

There is a related issue, that is not mentioned in the preamble, but which will be important in Section V in which I make my

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suggestions for reform. That is the issue of company unions. A company union is one formed and administered by an employer. In the 1920s several company unions were set up as a means of giving voice to workers in some decisionmaking. At the time, these company unions were considered very progressive, and employers who used this form of labor relations were considered enlightened. Goodyear Tire & Rubber Company, Filene Co., and the Colorado Fuel & Iron Co., for example, were pioneers in cooperative labor-management relations. In 1922, the Leeds & Northrup Cooperative Association, a company union, undertook the nation's first unemployment insurance plan.[18]

However, in 1933 the National Industrial Recovery Act (NIRA) was enacted. Section 7(a) of NIRA said that employers had (a) to allow their employees to join unions "of their own choosing" and (b) to bargain with those unions. To meet the requirements of 7(a), many employers formed company unions and bargained with them. Independent unions, such as the American Federation of Labor saw these newly formed company unions as "shams" that were set up just to prevent workers from joining independent unions. When the NLRA became law in 1935, it outlawed company unions. Section 8(a)2 of the NLRA forbids employers to form or support any labor organizations that deal with management on terms and conditions of employment. The NLRA was explicitly fashioned on the assumption that labor and management are natural enemies. It promotes adversarial labor-management relations.

Recently, under the pressure of global competition, American companies, both union and nonunion, have been forming labor-management cooperation committees to once again give employees more voice in decisionmaking. These committees are sometimes called "quality circles" or "employee involvement teams." In 1992, in the *Electromation* case, the NLRB declared these cooperation committees to be illegal company unions. Because of that decision, the law in the U. S. today is that labor-management cooperation

[18] Nelson, Daniel, "The Company Union Movement, 1900-1937: A Reexamination," *Business History Review*, Autumn, 1982, pp. 335-357.

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which is not *union*-management cooperation is illegal.[19]

Obviously, I recommend repeal of Section 8(a)2, or at least modification of it to allow good faith efforts by management to elicit worker cooperation to improve efficiency, productivity and morale. But that is not the point for this paper. In Section V, I will explain the role of company unions in my proposals for reform based on equality and justice.

D. *Compulsory Bargaining*

Now, consider the claim in the NLRA's preamble that the Act is intended to "encourage" collective bargaining. Sections 8(a)5 and 8(b)3 impose on employers and unions, respectively, a *duty* to bargain. Section 8(d) adds that the duty is a requirement to bargain "in good faith." Case law has established that "good faith bargaining" means that each side must compromise with the other. Mandatory bargaining violates the consent condition for voluntary exchange. Justice requires that individuals and groups be free to choose whether to bargain with each other.

Moreover, equality requires that both sides be treated equally. Although Section 8(b)3 imposes a duty to bargain on unions, in practice it is almost always employers who are found to be in breach of their duty to bargain. For example in *NLRB v. General Electric Co.*, 418 F.(2d) 736 (1969), a federal appeals court ruled that General Electric had failed to bargain in good faith because it made its contract offer on the basis of a poll taken of the workers, and it refused to alter any of the terms in its initial offer. The decision included the following bit of process inequality:

> General Electric chose to rely entirely on its communications program to the virtual exclusion of genuine negotiations, which it sought to evade by any means possible.... The aim, in a word, was to deal with the union through the employees rather than with the employees through the union.

In other words, General Electric should not have tried to

[19] Baird, C.W., "Are Quality Circles Illegal? Global Competition Meets the New Deal," *Cato Institute Briefing Papers*, February 10, 1993.

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discover what its employees wanted and then tried to get the union to agree to what the employees wanted. Instead, the union should decide what it wanted and then try to get General Electric to agree to that. The union, of course, *was* free to poll workers, but it did not do so. Ever since the *General Electric* decision, no take-it-or-leave-it bargaining has been permitted. The only reliable defense an employer can use against a charge of failure to bargain is a record of compromises. Not to put too fine a point one it, unions have a defacto property right to receive concessions from employers during collective bargaining.

E. *Union Security*

Because of exclusive representation, unions have been granted the power to force workers they represent to join them, or, at least, to pay unions dues. Section 8(a)3 of the NLRA states that it is an unfair labor practice for an employer

> by discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labor organization [except the employer may] require as a condition of employment membership therein on or after the thirtieth day following the beginning of such employment....

That is *exactly right*. Employers may not encourage or discourage membership, they may only agree with a union to require it.

Unions justify compulsory membership and/or dues paying on the grounds that under exclusive representation they are required (forced) to represent all workers in their respective bargaining units; hence, it is only fair that every worker pay for the representation services. Otherwise, some workers would be free riders. They would receive union-generated benefits without helping to pay for the costs of generating those benefits.

First, it is disingenuous for unions to claim that exclusive representation is a burdensome requirement. They fought long and hard to get government to grant them the privilege of exclusive representation. Now they say because they have the privilege, workers should be forced to pay for representation they do not want. The free rider problem could be eliminated simply by repealing exclusive representation. If unions bargained only for their voluntary members

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and no one else, there could be no free riders.

Second, the free rider problem is faced by all cartels. In fact, it a principle reason why most economists say that cartels are inherently unstable. Combinations to eliminate competition naturally disintegrate unless government does something to support them. Here is a fine example of unequal protection of the laws. Labor cartels are protected from natural disintegration , and employer cartels are not. Here, there should be an equal *non*protection of the laws.

There is no justice in forcing people who do not want to be represented by a union to pay tribute to a union as a condition for entering employment contracts with willing employers. The situation is not ameliorated because, under the NLRA, employers have to "agree" with unions to require membership and/or dues paying. Employers are forced to bargain with certified unions on the issue of union security, notwithstanding the desires of individual workers. Union security agreements under the NLRA are not voluntary exchange agreements. They are based on privileges granted to unions, and to no one else, by the law.

Yellow dog and union security contracts are consistent with process equality and justice only if (a) employers freely choose to bargain with workers (yellow dog) and unions (union security) on the issues, (b) workers and unions also freely agree to bargain with employers on the issues, (c) all union members are voluntary members and (d) all parties can turn down any offers they do not like without losing anything to which they are entitled. It is a question of property rights – who owns what? Workers own their labor, employers own the jobs, and unions own whatever workers, on an individual basis, are willing to delegate to them. With those entitlements, let closed shops, union shops, open shops, and union-free shops bloom.

V. An Agenda for Reform

For classical liberals the appropriate reforms are clear. Those who accept the principles of voluntary exchange and process equality and justice as the guidelines according to which labor relations law ought to be (re)constructed must advocate the complete repeal of the NLA. There is not one whit of equal, just process in the whole Act. It is special privilege, and only special privilege, legislation.

Picket line, or any union-related, violence ought to be enjoined

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even if to do so would harm the aggressor more than the continued violence would harm the victim. The common law of contract, tort, and trespass ought to apply equally to everyone, even peaceful primary strikers. Workers, employers, and the general public ought to be defended from coercion from all sources. If we are to have antitrust laws, they ought to apply equally to all combinations in restraint of trade whether by employers or workers. Strangers should not have any standing at all in labor relations disputes. If Ford has no legal standing in a suit brought by Chrysler against General Motors, why should unionized employees of Ford, or unemployed union members, have legal standing in a dispute between Safeway and its unionized employees?

The dirty little secret of American labor relations law is that individuals, acting under the auspices of a union, have almost no chance of being successfully prosecuted for acts of violence against other individuals and property. Worse, the unions that put them up to the violence have *zero* chance of being prosecuted as institutions. The principle of vicarious responsibility ought to be resurrected for unions.

All of these goals can be accomplished without any new legislation. Repealing the NLA, one of the best examples of bad legislation, would be sufficient. Moreover, I think the general electorate can me made to see the justice of such a move.

The NLA is very much like the British Trade Disputes Act of 1906 which also granted unconscionable special privileges to unions. Margaret Thatcher and Norman Tebbit, with significant assistance from The Institute for Economic Affairs which made the thinking of A.V. Dicey, F.A. Hayek, and W.H. Hutt part of the public debate, were able effectively to repeal the 1906 Act in the 1980s. If the British can do it in eighty years, the Americans should be able to do the same by the end of this century.

However, when it comes to the NLRA repeal would be more difficult to sell. Well entrenched conventional wisdom in the U.S. holds that repealing the NLRA amounts to making unions illegal. Unions have depended on special privileges for so long that most people expect they cannot survive without those special privileges. Therefore, although the common law of contract, tort and trespass are sufficient to delimit acceptable conduct in labor relations, I think it would be useful for Congress to codify the rules of voluntary

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unionism. For their part, unions are so used to their government-granted special privileges that they probably really don't understand how voluntary unionism would work and what their responsibilities in such a regime would be.

Congressman Dick Armey (R, TX) submitted H.R. 1341 in the 103rd Congress, the one before Newt Gingrich became Speaker of the House. It does away with exclusive representation. In its place is a system of voluntary representation. Specifically, the Armey bill says that if a union has a majority of workers as voluntary members, the union will bargain for its members and as many individual nonmembers as choose to accept the union's representation services. It allows compulsory dues to be assessed on all individual nonmembers who elect to be represented by the union. Thus, the Armey bill renders the free speech issue moot – there will be no certification elections – and eliminates forced dues – any individual can escape paying dues by choosing not to be represented by the union. However, the bill does nothing to address the issues of mandatory bargaining and company unions.

The Armey bill would be an improvement over the status quo, but I have a different suggestion. I would replace exclusive representation with proportional representation, make bargaining voluntary for both sides, and eliminate the proscription of company unions. I have already explained the latter two issues and my positions on them. It remains to explain and defend proportional representation, and the role of company unions therein.

Under a system of proportional representation a union bargains for its voluntary members, and for no one else. Workers are actually allowed individually to designate representatives "of their own choosing." Workers are also allowed individually to choose to represent themselves. Suppose there is a firm with 1000 assembly line workers who would, under exclusive representation, all be in the same bargaining unit. Under proportional representation each worker chooses which union, if any, will represent him. For example, 400 workers could be represented by Union A; 300, by Union B; 100, by union C; and 200 could choose to represent themselves.

Such a system could work with or without compulsory bargaining. Suppose, for example, that the law required an employer to bargain with all unions selected by his employees providing that a majority of workers joined some union or another. Collective bargaining would

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most likely be done by a committee of unions made up of representatives in proportion to their respective voluntary memberships. Alternatively, the law could require employers to bargain with any union that has any voluntary members who are employees. This latter system existed under Section 7(a) of the NIRA (1933).

On grounds of process equality and justice, I advocate proportional representation with voluntary bargaining. In this case employers (as well as unions) could bargain with their opposite parties if they chose to. That choice would, presumably, depend on labor market conditions. In periods of excess supply of workers capable of doing the job, employers may choose not to bargain. In periods of excess demand for such workers, employers may think they have to bargain to get the quantity and quality of labor they wish to employ. Unions would probably want to bargain most of the time, since that is their principal reason for existing. However, a union may occasionally refuse to bargain with an employer who wants to bargain in order to discipline the employer who earlier, under different circumstances, had refused to bargain.

President Franklin Roosevelt, who signed the NLRA into law on July 6, 1935, opposed exclusive representation just one year earlier. In March 1934 the United Auto Workers (UAW) threatened to shut down the auto industry unless the auto companies recognized the UAW as the exclusive bargaining agent for all industry production workers. In order to avoid the strike, Roosevelt intervened in the dispute and settled it on the basis of proportional representation. That is, the UAW represented only its own members. Other unions, *including company unions*, represented their voluntary members. Individuals who chose to be union-free represented themselves. Roosevelt declared that such an arrangement was called for by Section 7(a) of NIRA. More importantly, he asserted on national radio that proportional representation was the only form of union representation consistent with American principles of liberty.

Note that under Roosevelt's Auto Settlement, workers could choose to be represented by company unions. In a free society an employer ought to be allowed to undertake any worker-management interaction processes it wishes, including a company union. If workers are free to decide whether to be represented by company unions there is no justice in legislation that proscribes them.

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Should employers be free to say that they will bargain *only* with company unions? Of course, why not? Whether they can get the quantity and quality of labor they want by doing so depends on conditions in the labor market. In periods of excess demand for labor, employers may have to resort to bargaining with independent unions that represent the workers they need and cannot get elsewhere. In periods of excess supply of labor, perhaps employers could refuse to employ workers who are not willing to join company unions. Most likely, in order to establish a reliable workforce, most employers would settle down to long term bargaining relationships with several, including company, unions.

Senator Robert Wagner (D, NY), the author of the NLRA which Roosevelt signed in 1935, proposed almost identical legislation, based on exclusive representation, in 1934. Roosevelt opposed the 1934 version of Wagner's bill on precisely the same grounds he defended proportional representation in the March 1934 Auto Settlement. He was in favor of voluntary, not compulsory, unionism. The reason he changed his mind and supported the 1935 Wagner bill is another story.[20]

Perhaps the policy alternatives available to writers of labor relations legislation can be clarified by the following 2 X 2 taxonomy. The columns depict the alternatives with regard to bargaining – compulsory and voluntary. The rows depict the alternatives with regard to representation – exclusive and proportional.

BARGAINING		
	compulsory	**voluntary**
	exclusive NLRA	null
REPRESENTATION		
	proportional : Section 7(a) of NIRA	free society

Box I is the status quo in the United States. I do not recommend

[20] See Baird, C.W., *Opportunity or Privilege: Labor Legislation in America*, Social Philosophy and Policy Center, Bowling Green, Ohio, 1984, Chapters 2-3.

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it for any newly emerging, democratic, market economies. I know of no real world examples in Box II. Box III, into which Section 7(a) of NIRA fits, also, with minor adjustments, describes Armey's proposal. (His representation is voluntary, but not proportional, because only one bargaining union can function at a time, but individual workers can opt out of the representation.) On grounds of process equality and justice, Box III is clearly preferable to Box I, but it is still blemished by coercion. Box IV describes the only kind of labor relations legislation that is fully consistent with the free society, one based on process equality and justice.

VI. In Conclusion

In 1957 Sylvester Petro published *The Labor Policy of the Free Society*.[21] In which he argued in favor of voluntary bargaining and repeal of the special privileges of the Norris-LaGuardia Act. However, he expressed no reservations about exclusive representation. As a result, he had to advocate repeal of union security arrangements while keeping exclusive representation. With proportional representation, union security is moot and representation is voluntary. My proposal is more radical than his, and, I think, more consistent with the principles of the free society.

Nevertheless, Petro did a superb job of putting the history of unionism in the U.S. in proper perspective:

> The labor relations legislation of the ... 1930s did not create the legal right of employees to form and join trade unions; that right was recognized by the common law, prior to the enactment of the labor relations legislation. Accurately stated, the effect of the labor relations legislation was to extinguish another right recognized by the common law: the right of employers to resist and discourage employee organization by means of the peaceful exercise of their own property and contract rights.[22]

I would add that the labor relations legislation extinguished yet another right recognized by the common law: the right of workers

[21] Petro, Sylvester, *The Labor Policy of the Free Society*. op. cit.

[22] Ibid, p. 138.

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individually to refrain from associating with unions. My proposals would remedy the injustices recognized by Petro as well as the injustices he overlooked.

This paper was presented at the Regional Meeting of the Mont Pelerin Society, Cape Town, South Africa, September 10-13, 1995. Comments gratefully received. Send to Professor Charles W. Baird, Director, The Smith Center for Private Enterprise Studies, California State University, Hayward, CA 94542

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An Introduction to the Theory of Privatization

Coskun Can Aktan[1]
Dokuz Eylul University, Turkey

The concept of "privatization" has not been yet clarified in both theory and practice (Bailey, 1987; Kolderie, 1986; Kay and Thompson, 1986). As noted by R.W. Bailey, "one of the concepts in vogue is privatization. Although the concept itself is unclear, it might be tentatively defined as a general effort to relieve the disincentives toward efficiency in public organizations by subjecting them to the incentives of the private market. There are in fact several different concepts of privatization" (Bailey, 1987; 138).

J.A. Kay and D.J. Thompson also agree with Bailey by noting "privatization is a term which is used to cover several distinct, and possibly alternative means of changing the relationships between the government and private seetor" (Kay and Thompson, 1986; 18).

Privatization is frequently to refer to the sale of a Publicly Owned Enterprise's (POE's) assets or shares to individuals or private firms. However, this definition gives only a narrow meaning to privatization. In a broader meaning, it refers to restrictions on government's role and to some methods or policies that seek to strengthen a free market economy. The former meaning of privatization, i.e. the sale of a POE's assets or shares to the private sector, is mostly called "denationalization." These two terms – privatization and denationalization – are mostly confused and sometimes used interchangeably in the literature. As a matter of fact, denationalization is just one method of privatization. Government's role and functions can also be reduced or can be wholly terminated by implementing some other methods. In this article, I shall explain, first, the narrow meaning of privatization and, after that, shall explore the broad meaning of privatization, which encompasses the methods or policies that aim to strengthen a free market economy and to

[1] Thanks are due to Peter Jackson, Peter Moser and Akira Yokoyama for their valuable comments and suggestions.The author also wishes to thank Donald L.Dungan for his kind editing assistance. The usual caveat applies.

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reduce the role of the government in the national economy.

The Concept of Privatization

A. The Narrow Meaning of Privatization: Denationalization

As already noted, denationalization refers to the sale of assets or shares of a publicly owned enterprise to the private sector. This definition, indeed, is not at all complete, because it does not explain what shares or assets of a publicly owned enterprise must be transferred to the private sector. According to the definition given above, even when a small part of shares/assets are sold to the private sector, it can be called as "denationalization." However, it is more appropriate to define denationalization as transferring at least a 51 percent share of a POE to the private sector. In this case, transfer of ownership (sale of shares) results in transfer of management and operation. However, full denationalization requires that all shares and assets of a POE be sold to the private sector.[2]

There are two main arguments in favor of denationalization: greater efficiency and widespread private ownership (Bös, 1986). The former is the result of competition that denationalization brings. A competitive market creates both allocative and productive efficiency. Allocative efficiency means that economic resources can be used in the production of goods and services that people desire most. In other words, competition causes economic resources to flow to their most highly valued uses.

On the other hand, productive efficiency refers to a situation in which the total output of a firm is obtained at the lowest possible cost in economic resources. Putting it another way, competition forces firms to produce their output at the lowest possible cost. Hence, denationalization, it is alleged, brings an end to X-inefficiencies in the public sector. X-inefficiency arises when economic resources are not used to their full capacity. This happens for publicly owned enterprises because some of them have monopolistic status and there

[2] The definition of denationalization is not standard in the privatization literature. For example, E.S. Savas gives a general definition: "The divestiture of the State Owned Enterprises (SOEs) and assets is called denationalization" (Savas, 1987; 241). M. Beesley and S. Littlechild give a different definition: "Denationalization is generally used to mean ... the subsequent sale of at least 50 percent of the shares to private shareholders" (Beesley and Littlechild, 1983; 1).

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is little entrepreneurial incentive in them. Although a monopolistic publicly owned enterprise can gain from reducing its costs, there is no competitive pressure to force it to do so. Therefore, publicly owned enterprises usually use resources wastefully and result is inefficiencies in the sectors or industries.

Denationalization is, indeed, not easy to implement. Many problems as well as obstacles may appear during implementation. The main problems can be summarized as follows:

1. Timing and Planning of the Denationalization Process:

Denationalization involves a timing issue. It is necessary to make a time schedule in order to reach a successful outcome. For this reason, the following stages must be taken into consideration during the implementation process.

- Promotion of the denationalization program and strategy to the public: Denationalization may bring reactions from various public groups. Some political parties, unions, etc., may oppose this policy. It is quite difficult to achieve denationalization without public confidence and support. Mass media instruments (radio, TV, press, etc., may play an important role in promoting the objectives of the denationalization to the public. The public should especially be informed that denationalization does not mean "the sale of government." Therefore, objectives must be clarified.
- Preliminary studies: In the second phase of the denationalization process, preliminary studies should be carried out in various sectors. Preliminary studies can be undertaken by a Committee including some members of academia, capital market experts, central bank officials, union representatives, etc. The committee's final report should be presented to the public. The discussions and debates on the final report would result in a better understanding of the denationalization program and can help to solve the deficiencies of the strategy.

On the other hand, technical assistance about how to implement the sale would be necessary for developing countries, because those countries may not have adequately qualified staffs to carry out the denationalization program.

- Legal framework: Following promotion efforts and preliminary studies, a denationalization law should be enacted in which objectives, methods and the implementation process should be clarified.

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- Implementing the program gradually: Instead of putting into effect a comprehensive program and implementing it rapidly, the program should be carried out gradually. For example, instead of selling a publicly owned enterprise wholly, the sale process could be implemented in stages. Moreover, a small amount of equity stocks would be sold first.

2. The Priority Problem:

The first priority issue is: Which publicly owned enterprises should be privatized first? In other words, which public owned enterprise's stocks should be offered for sale to the public first? Furthermore, to whom should the stocks be offered? These questions relate to problems of priority. The first problem is determining the publicly owned enterprise whose assets or shares would be sold first. Determining the groups to whom the assets or equity stock will be offered is another problem. These issues – which could be called "priority problems" – are important for a successful implementation. Let's go a step further and explore these issues in detail.

Each POE somehow performs different functions and operates in different sectors. Some of them work within the same rules and principles as private enterprises. Some of them have natural monopoly characteristics. Therefore, it is important to find some rational criteria to determine the POE that will be privatized first. For example, a criterion would be that POEs that have economies of scale and natural monopoly characteristics can be considered for privatization last. The rationale for this is that a competitive environment is necessary before implementation. Another criterion would be that a POE that has a bad financial status should also be considered for privatization last. Beesley and Littlechild, who explored the priority problem in their article, concluded: "Priority should be given to privatizing those industries where consumer benefits are likely to be greatest. Potential benefits will depend upon the size of the industry, whether it has already received attention, and whether competition rather than monopoly is likely to ensue" (Beesley and Littlechild, 1983; 18).

Beesley and Littlechild analyzed industries in Britain by applying three criteria to determine priority. The criteria were:

- Of size: According to them, *ceteris paribus* a larger industry

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offers potential scope for savings. For example, an industry with a turnover of 2 billion Pounds offers twice the potential benefit of an industry with a turnover of 1 billion Pounds. In brief, the larger industry should be considered for denationalization first.

- Of changing workforce: According to this criterion, a nationalized industry with higher lay-offs should be considered for sale last.
- Of competition: Beesley and Littlechild argue that the promotion of competition – by removing artificial restrictions on entry, making resources equally available to potential entrants, and restructuring the existing industries – is the most effective means of maximizing consumer benefits and curbing monopoly power (Beesley and Littlechild, 1983; 18). According to them, benefits to consumers are likely to be greater to the extent that competition rather than monopoly is likely to predominate in industry. In sum, nationalized industries that are in a monopolistic status should be taken into consideration last.

The second problem concerning priority is determining the groups to whom equity stocks should first be offered. Beforehand, it is necessary to answer this question: Who are the potential buyers to whom equity stocks could be offered? It should be noted that individuals, private employees, farmers, private firms, and foreign companies operating within the country or abroad are the major potential buyers.

It has been alleged that employees working in the publicly owned enterprise subject to denationalization should receive preferential treatment. Under an Employee Stock Ownership Plan (ESOP) some shares could be offered to those employees. Later, other public employees, workers, and retired people could be given priority. It has been claimed that widespread ownership and economic democracy can be achieved through such a policy. Since it is a fact that unions may oppose denationalization in general, such policy could soften the resistance by public employee unions. Another problem is whether there should be any sale to foreigners. Processing sales to foreigners could be carried out within a domestic capital market or in an international stock exchange, such as in New York, Tokyo, London, etc. However, equity sale to foreigners may constitute a serious problem in developing countries.

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3. Other Problems:

Some other problems may arise during the implementation of the denationalization program. The most noteworthy of these may be grouped as follows:

- Appraising the value of the assets of the publicly owned enterprise subject to sale is not an easy task.
- Some problems may arise during the sale of shares of the POEs. The important problems are how the value of equity stocks will be determined, whether the domestic capital market is able to absorb the sale of equity stocks, what the expectations are about demand and supply in the capital market, and what measures should be taken so that equity stocks not be centered in one or a few hands.

As already noted, denationalization is not easy to implement. Besides the problems that we have just summarized, there are also some obstacles for implementation in developing countries. As a matter of fact, an initial question is: "How relevant is the privatization of POEs to developing countries?" Can denationalization be implemented successfully in those countries?

Traditional economic development theories suggest that government interference is necessary as a result of market failure in developing countries. They argue that development is expected to play the major role in developing countries in order to achieve economic growth. However, recent economic theory claims that governmental activities, even in developing countries, should be reduced as much as possible.

The major barriers to implementing denationalization successfully in those countries are summarized here:

- Political Instability and Uncertainty: It is a fact that many developing countries suffer instability and uncertainty in politics. Democracy and freedom have not yet been institutionalized in those countries. Political instability is an important barrier to implementing a privatization program successfully. As Roger Leeds noted: "For a variety of reasons...the achievement of a set of privatization objectives is extraordinarily difficult, and in the best of circumstances will take many years to implement. It is imperative that political leadership have the time to build a solid foundation of support for the privatization program both within the government itself and in the electorate. Thus, a prerequisite for the implementation of a comprehensive privatization program is the period of political stability

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and continuity" (Leeds, 1988; 169).

- Economic Instability and Uncertainty: Bad politics puts the economy in a worse situation even though the implemented economic policy is correct. Economists increasingly believe that the politicians are the major source of economic problems. Public Choice economists especially argue that shortsighted and self-interest-seeking politicians create new economic problems in the society. Economic instability and uncertainty are mostly the result of political instability. Within an unstable macroeconomic environment, it is difficult to implement a privatization program successfully.

Leeds notes that "there is an inextricable linkage between the prospects for a successful privatization program and the attractiveness of the macroeconomic environment to the private sector generally. A need exists for price stability, positive but not exorbitant real interest rates, a policy framework that encourages competition, and realistic exchange rates. If these ingredients are absent, or their future in doubt, privatization plans will be more difficult to implement" (Leeds, 1988; 170). In brief, privatization must take place within an optimal macroeconomic environment.

- Weak and Underdeveloped Capital Markets: Capital markets in developing countries either are not developed or are non-existent. It is quite difficult to sell equity stocks of POEs in a domestic capital market in developing countries. This is because there are very few potential buyers. The income of wage-earners is very low and this keeps them from buying equity stocks. As a matter of fact, development of a formal indigenous capital market is not an automatic or simple process. It is necessary to create a legal capital market before implementation of denationalization. Development of a domestic capital market requires that certain policies be put forward. Government should give an end to interest and dividend controls. A legal and administrative framework should be established to guarantee investor protection. A system of corporate law with standards for accounting and disclosure should be enacted. Along with these steps, it is important to train accountants and auditors. The government should stop tax discrimination against corporations. Of course, some incentives are also necessary to encourage institutional investment and to open markets to foreign capital. In brief, development of a capital market is likely to be a slow process. However, the above and some other measures should be gradually

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implemented (Aylen, 1987; 25).

In the past decade, denationalization has been a popular movement throughout the world. Not only developed, but also developing countries have explored efforts to set up an environment in which denationalization can be implemented successfully. Some international organizations, such as the World Bank, IMF, International Development Agency, Asian Development Bank, etc., have been supporting developing countries both financially and technically. The World Bank's affiliate, the International Finance Corporation (IFC), is especially active for that purpose. IFC helps those countries in the preparation of a privatization strategy, as well as provides advice and assistance to governments in fostering capital markets, attracting private investment, transferring technology and improving the regulatory environment (Shirley. 1988; 35).

B. The Broad Meaning of Privatization

Denationalization is only one form of privatization. In a broader meaning, privatization refers to the transfer to the private sector of functions previously performed exclusively by the public sector. In other words, privatization is an umbrella term that encompasses all methods or policies implemented to increase the role of market forces within the national economy. In this context, the concept of privatization covers several arrangements to deliver goods and services by the private sector. In the following, these arrangements are explored.

1. Contracting-Out

Under this arrangement, the government contracts out with for-profit as well as not-for-profit organizations for the delivery of goods and services. In other words, the government purchases services from a private firm or a non-profit organization. Contracting-out is especially common in such services as public works and transportation, public safety services, health and human services, parks and recreation services, etc. Municipal governments are increasingly interested in contracting such goods and services with private firms. At the local level, refuse collection and cleaning are often contracted-out in many countries. In addition, roads, schools and government offices are generally constructed for governments by private contractors under contractual arrangements; and pencils,

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desks, fire hoses, uniforms, food (for pupils, patients, and prisoners), ferry boats, automobiles, guns, garbage trucks and computers are bought from private vendors. Furthermore, governments – both central government and local government – contract-out for a wide variety of services, such as grounds maintenance, custodial functions, cafeterias, secretarial and clerical work, libraries, laundries, computer centers, microfilming, photography, printing, claims processing, transportation and so on (Savas, 1987; 69).

A study based on a survey that included 1780 cities and counties in the U.S.A. in 1982 showed that about one-third of the services provided were contracted out to private firms and non-profit organizations. The percentage was high, especially for private firms. Contracting-out was most common for commercial and solid waste collection in the category of public works and transportation. The percentage was 44 for commercial waste collection and 35 for the solid waste collection in public safety services. About 80 percent of vehicle towing and storage services were contracted-out to private firms. Cities and counties contracted-out approximately 35 percent of day-care centers, and about 30 percent of hospital operation and management (Valente and Manchester, 1984; xv).

Let us now analyze the benefits and drawbacks of the contracting-out system. There are many arguments in favor of contracting-out for public goods and services. But also there are some disadvantages. Advocates claim that contracting-out has the following advantages (Savas, 1987; 105-110; Hartley, 1986; De Hoog, 1984, 1-16; Moore, 1987; Ascher, 1987):

(i) Contracting-out is efficient and effective because it fosters and initiates competition. The competition among firms bidding for a service contract drives the cost down. Most empirical studies clearly prove that the cost of the services provided by government is much higher than when the services are provided by private contractors.

(ii) Contracting-out also provides better management than public management does, because decision-making under contracting-out is directly related to costs and benefits. In other words, this method fosters good management because the cost of the service is usually obscured under public management.

(iii) Contracting-out would help to limit the size of government, at least in terms of the number of employees. It is a fact that overstaffing is common in publicly owned enterprises.

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(iv) Contracting-out can help reduce dependency on a government monopoly, which causes X-inefficiencies and ineffectiveness in services.

(v) Under contracting-out, contractors can be penalized if their service is of poor quality and unsatisfactory. Contractors must provide good services in order to renew the contract.

(vi) Contracting-out is more flexible in responding to the needs of citizens. Greater flexibility in the use of personnel and equipment would be achieved for short-term projects, part-time work, etc., whereas bureaucratic formalities are said to be very common when the service is delivered by government. Less tolerance and strict hierarchy in bureaucracy are the reasons for the inflexibility in publicly provided services.

On the other hand, opponents of contracting-out argue that this system has the following main deficiencies:

(i) Corruption may be widespread in the process of awarding contracts to individuals or private firms.

(ii) Contracting-out may limit the flexibility of government in response to emergencies because contractors are liable to go into default and take bankruptcy.

(iii) Competitive tendering is not costless; there are costs to the state authority, which must increase monitoring and enforce contracts.

(iv) Contractors may hire inexperienced transient personnel at low wages and this decreases the quality of the service.

(v) Contracting-out involves laying off public employees. As a result, government has to pay unemployment compensation to the laid off public employees.

Although there are some drawbacks to the contracting-out system, it has been argued that they can be eliminated by taking some precautionary measures. For example, a genuine rivalry is important for improving efficiency. There is a danger that competition will be restricted to members of established trade associations, with the possibility that collusion may result in private monopolies replacing state monopolies. Regular re-contracting should be required so that competition occurs. Regular re-contracting also forces contractors to work efficiently so they can renew the contract (Hartley, 1986). Long-term contracting should be avoided to obtain maximum cost savings, and bidding requests should be publicized as broadly as possible. Finally, upon completion of the bidding process,

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performance of the contractor should be monitored and evaluated regularly.

2. Franchising

Under a franchise agreement, the government gives a special monopoly privilege to a private firm to produce and supply some part of a particular service. Besides this exclusive right given to a private firm, the government may also award multiple franchises. Mass transit is an example of franchising. The government makes a contract with a single private firm or several firms to provide the service. The former is an "exclusive franchise " and the latter is called a "multiple franchise." It should be pointed out that a franchise contract usually includes a price resolution right of government.

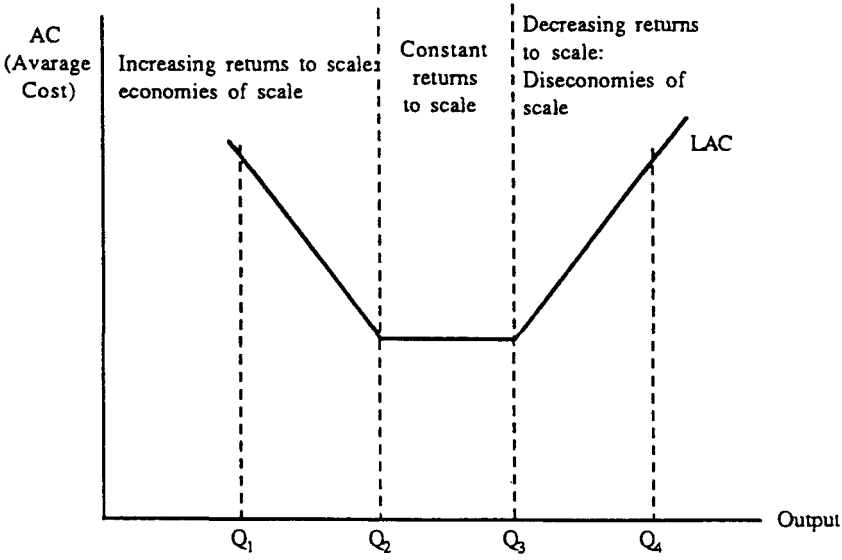

Figure 1 Economies and Diseconomies of Scale

The franchising method is especially common for the delivery of toll goods, which have natural monopoly characteristics. In macroeconomic theory, it is argued that a firm would become a "natural monopoly" in time if there are economies of scale in industry. In other words, natural monopoly exists if the average cost

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of producing a product constantly decreases while output is increased. Several factors have a bearing on why the long-run unit cost of production falls as output increases (Ekelund and Tollison, 1986; 171):

- A larger operation means more specialized processes are possible in the firm. Workers can concentrate on and become more proficient at narrowly defined tasks.
- As the operation grows larger, workers and managers gain valuable experience in production processes. Since workers and managers of a larger firm produce more output and acquire more experience, this can lead to lower unit costs.
- Large firms can take advantage of mass production techniques, which require large setup costs. Setup costs are more economical when they are spread over a large amount of output. Production techniques such as the assembly line used by large automobile manufacturers would result in very high unit costs if used by small producers of specialized cars.

As noted earlier, if there are economies of scale in the industry, a natural monopoly tends to result, because if there is more than one firm supplying the total market, each firm must be producing at an average cost level that would exist if only one firm supplied the entire market. As a result of this, each firm increases its market share and reduces its average costs. At last, hard competition would occur among firms and ultimately there will be one firm – that is, a natural monopolist – to dominate the market (Hange, 1985; 9).

Economies of scale are most common for such goods as power supply, gas and water distribution, communications services, broadcasting, TV, railways, etc. For many years, economists – especially theoretical welfare economists – argued that these goods and services ought to be provided by a public monopolist, who tends to increase the prices by limiting the production.

However, in recent years it has been argued that these goods and services can be privatized under a franchising agreement. It is possible to obtain maximum benefit via a competitive bidding process. Some economists argue that franchising is an effective solution for the privatization of natural monopolies (See Demsetz, 1968; Hanke, 1985; Domberger, 1985).

Opponents of this method argue that franchising is not costless. Some problems may occur during the operation of a franchise.

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Franchises typically last for a considerable length of time. During this period, significant changes can occur in consumer choices, costs and production technologies. These factors require that the original bidding contract ought to be properly evaluated. Moreover, the government needs to monitor the activities of the franchisee carefully and regularly.

Another problem concerning the operation of a franchise occurs toward the end of the contract. It is argued that when there is a possibility of non-renewal the franchisee may underinvest in fixed assets and reduce maintenance expenditures (Hanke, 1985; 13).

3. Deregulation and Decontrol

Deregulation and decontrol are two important policies to strengthen the free market economy. The former means termination of all kinds of "public regulations" within various sectors or industries. The latter requires that all types of "public controls" be abolished. Both "public regulation" and "public control" are broad concepts in the sense that they define the various ways in which government may intervene directly in economic activities. Some of these regulations and controls require economic agents "to do" or "not to do" or "to get permission to do" some activities. Public regulations and controls can be either "legal-administrative" or "economic". Some examples of legal and administrative regulations and controls are traffic regulation, taxation, conscription, etc. Economic regulations include such practices carried out by the government as awarding occupational licensure, patent, franchise, tariffs and quotas for international trade, etc. All kinds of direct intervention in the natural functioning of supply and demand, such as price, rent, interest, wage control, etc., are also examples for "economic" controls within the national economy. The types of public regulations and controls are shown in Table 1.

4. User Charges

Some public goods and services are supplied free of charge and financed by general fund revenues. In fact, this is something of a requirement because of the "indivisibility" and "non-exclusion" characteristics of some goods and services. National defense and judiciary are two typical examples of these kinds of services. However, there are some other types of public goods and services whose

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benefits can easily be divided and whose users can be excluded from its consumption. Higher education, health services, cable TV, electric power and mass transit are the main examples. These types of goods and services can be either provided free of charge and financed by taxes or by the imposition of a fee or user charge to the individuals who receive benefits.

User charges can be imposed on exclusive club goods, which includes "toll" and "quasi-public" goods. These goods have both user charges, or fees, is to reveal the true cost of the services provided. In other words, those who want to benefit from some particular services should contribute to their full cost. Here, we should note that user charges are an application of the "Benefit Approach of Taxation." Only those who receive benefits from public goods and services are required to pay or share its cost.

Such charges apply to a wide range of goods and services that exclusion and joint consumption features. The main purpose of the are provided by local government in particular. Public utilities usually charge a fee to local inhabitants for their use of goods. Examples of services financed by user charges include swimming pools, parks, museums, hospitals, electricity, gas and water supply, education, etc.

Some conditions are necessary for a successful implementation of user charges (Wagner, 1973; 128). First, the goods and services must be divisible among the users. That is, different people must be able to consume different amounts of the service. The user pricing of "divisible" goods and services thus stands in contrast to the tax pricing of indivisible goods and services. In brief, user charges should be related to the consumption of the divisible goods and services. An example is the water, gas and electricity consumption of local inhabitants. It is feasible to impose user charges for each consumer according to his consumption of water, gas and electricity.

Additionally, administrative costs can be relatively low. Following the above example, it can be said that it is relatively inexpensive to monitor an inhabitant's water consumption and to impose user charges accordingly. However, it is relatively expensive to monitor an individual's consumption of highway services, although it is divisible. The cost of administering the user charges of tolls for highways would be high.

There are some important benefits that can be obtained through user charges. When user charges are substituted for general fund

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Table 1: Types of Public Regulation and Public Control

Public Regulation

Legal and Administrative Regulation	*Economic Regulation*
- Taxation	-Legal barriers to entry to the market (public monopoly, franchise, - occupational licensing and patent)
- Environmental regulation	
- Conscription	-Legal barriers to international trade (tariffs, quotas etc.)
- Traffic regulation (compulsory seat belt)	
- Compulsory elementary education	-Subsidies to public enterprises
- Prohibition of using drugs	-Compensating "duty loss" of POEs
- Standardization in products	-Rescue operation for private firms in bankruptcy

Public Control

Legal and Administrative Control	*Economic Control*
- Auditing of taxpayers	-Price control
- Traffic control	-Wage control
- Environmental control	-Rent control
- Health control	-Interest rate control (usury law)
	-Exchange rate control

Source: Aktan, 1993;156.

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financing (taxes), it is possible to get immediate and clear responses to the price changes. Hence, producers' output choices transmit stronger signals concerning desired rates of supply. Consumer purchases convey information about relative preferences, and this information is an ingredient in the process by which resources become allocated to more highly valued uses. If a single service is sold via user charges, the information generated by consumer preferences is clear. Thus, the earning of a profit indicates that a service is valued more highly than other services. However, if several services are sold jointly through a general budget, information concerning profit or loss reveals little about which services to expand or contract. Thus, price is a less sensitive conveyor of information when several prices are jointly supplied by a general budget than when a single service is supplied by user charges (Wagner, 1973; 132).

Note that user charges are not the same thing as "earmarked taxes." Earmarking is a method by which specific government revenues are designated or dedicated to the financing of specific government expenditures (see: Buchanan, 1972). Earmarking is also an extension and application of the benefit approach of taxation, which requires that government should directly tax the users of public goods and services. People who obtain benefits from public schools, for example, are charged a tax in the form of "tuition." People who use public buses and subways for transportation are required to pay a tax in the form of a "fare." Public utilities also charge fees for their services, such as the supply of power, water and gas. Another common example is the toll on roads. Highway users can be taxed directly for their use of the road in the form of a " toll." In sum, earmarked revenues may consist not only of tax but also of non-tax revenues. User charges are the main source of non-tax revenues.

5. Grant System

Grants or subsidies are financial or in-kind contributions to individuals or private firms by government. Grants are awarded to encourage production by particular classes or producers. The grant may be in the form of a cash subsidy, tax incentives, low cost loans and loan guarantees. (See Table 2).

Subsidies are used to provide various goods and services. Profit as well as non-profit organizations are generally the recipients of subsidies. For example, government may award a cash subsidy to a

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Table 2: Types of Grants

1. Free grants in the form of cash subsidy: Government offers money to a particular type of producer or supplier of goods and services. The most important feature of this form of grant is that the recipient of the subsidy is not required to pay the money back to the government. There is also no interest payment requirement.

2. Grants in the form of direct loans: Government provides low cost loans; in other words, it "subsidizes credit" to many different type of borrowers. Agricultural credit to farmers is a common example of direct loans. The primary type of a direct loan is the disbursement of funds by a single government agency or via different departments or ministries. Under the terms of a loan contract, the borrower agrees to repay the loan principal to the government with or without interest. Direct loans are financed from a variety of sources, including repayment of previous loans, appropriated funds derived from taxation, and borrowings.

3. Grants in the form of loan guarantees: Through loan guarantees, government stands behind the payment of the principal and interest in whole or in part if the borrower defaults. Note that under this type of grant government itself does not extend credits or loans to the individuals or the businesses. The loan is obtained from private lenders. Loan guarantees are contingent liabilities of the government. In the case of default by borrowers, government makes payment. Consequently, a loan guarantee transfers some or all of the default risk of the loan from the private lender to the government.

4. Grants in the form of tax incentives: Tax incentives take many forms:

- A low rate of taxes for particular types of activities.
- An Investment Credit System (ICS): Government permits individuals and private firms to deduct each year from their tax liability a certain amount/percent of their total current investment outlays on equipment. The government in effect pays a subsidy on investments by giving back to firms a fraction of the investment cost through this special tax credit.
- Accelerated Depreciation Range (ADR) system: Depreciation, the cost of the deterioration of physical capital, can be subtracted from the gross revenues of taxpayers. Sometimes, as an incentive, government may allow individuals and businesses to write off equipment quickly.
- Tax deduction: Most tax systems allow deductions of several items from adjusted gross income. Contributions to philanthropic organizations, casualty losses (such as from fire and theft) and some medical expenses are examples. - Tax exemptions: There are several kinds of tax exemptions. For example, the tax system may allow a certain amount of money to be subtracted from adjusted gross income for the marital status of the taxpayer, the number of dependents, and some exemptions for the elderly, blind and handicapped.

5. Grants in the form of awards: Government may award free lands to

requirement that they carry out a specific activity.

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non-profit organization to encourage its activity in the field of culture or the performing arts, such as the theater, opera, symphony orchestra, etc.

6. Voucher System

The voucher system is designed to encourage the consumption of particular goods and services by a particular class of consumers. This method can be implemented in various areas. Food stamps, tuition, medicaid or medicare, child-care, housing and transportation vouchers are some of the tools used to implement this system. A housing voucher, for example, can be used in lieu of constructing buildings by public servants. Government might give a housing voucher to those who need housing. This voucher allows a person/family to find public housing, for which the government pays all or part of the rent. Another example relates to mass transit, where the service can be supplied by the private sector, but government provides a transportation voucher to those who are handicapped, elderly, or poor. As a result, those persons use the service free of charge. Another example is a medicare or medicaid card, which makes it possible for the poor to obtain medical services from private hospitals. In this case, government does not prefer to supply services via public hospitals (see Table 3).

A voucher system works best when the following conditions prevail (Bridge, 1977; *56-57):*

- A voucher system should provide an incentive for individuals to shop wisely. The incentive can be created in two ways. If the value of the voucher is fixed, but wants are infinite, voucher holders will have an incentive to shop for the best values. If the voucher does not cover the full cost of services, recipients must use their own funds to fill the gap. This provides an incentive to shop wisely.

- Individuals should be well informed about market conditions, including the location, quality and cost of the goods and services they want.

- There should be many competing suppliers of the goods and services that people want.

- The quality of the goods and services should be easily measured.

- The product or service subject to a voucher system should be relatively inexpensive and purchased frequently. This permits the

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voucher holder to learn by experience. Shoppers can switch brands or suppliers from time to time in order to compare the quality of different alternatives. Food purchases, for example, provide continuous opportunities for learning.

A voucher system, like a grant system, is especially suitable for providing merit goods. Government may intervene in the market to encourage consumption by awarding "vouchers" to consumers and/or encourage production by awarding "subsidies" to producers.

Finally, it should be pointed out that a voucher system is not easy to implement. It is difficult to determine the individuals or groups to whom vouchers would be offered. Among the various recipients of vouchers, poor people will probably constitute a great percentage. However, a question arises here: Who are the poor? Even though the poor, or low income, families can be determined via the poverty threshold income level, it is not quite simple. Beyond that, several kinds of political corruption and "transfer seeking" activities can emerge in the process of awarding vouchers to the poor.

7. Management Contracts[3]

Government may sometimes retain full ownership of public enterprises and/or other public facilities, but transfer its management to a private firm. The rationale for this is that public enterprises and public facilities are said to be managed less effectively. Management usually works as follows (Hegstad and Newport, 1987):

- Government retains full ownership of the public enterprise and/or public facility.
- Government provides the necessary funds to the manager to run the enterprise and/or facility.
- The manager provides an integrated package of managerial skills necessary to develop, operate or rehabilitate the public enterprise and/or facilities(*).

[3] Note that a "Management Contract" is different from a "Consulting Contract." As a matter of fact, a management contract is a more comprehensive and complex process than consultancy. Through a consulting contract, government receives only consultant services, and the advisers or consultants are not furnished with management authority. Day-to-day operations are still carried out by public officials and workers under a consulting agreement.

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Table 3: Types of Vouchers

1. Tuition Vouchers: Government gives tuition vouchers to poor people for their education at the level of elementary, secondary or high school. For higher education, government creates scholarship/fellowship programs to be awarded in a competitive environment. Instead of providing education via government school, government aims to shift the demand to private schools.

2. Medicare/Medicaid Vouchers: Government gives medicare/medicaid vouchers, for example, to public employees for their use of private hospitals. In this case, instead of providing health services via public hospitals free of charge or in return for a little fee, medicare/medicaid vouchers can be given to parents working in government offices or to some poor people. Holders of medicare/medicaid vouchers get services from private hospitals.

3. Child Care Vouchers: Instead of operating government owned and operated day-care centers,government may award a child-care voucher to the potential recipients of the service and they obtain services from private day-care centers.

4. Housing Vouchers: Government sometimes constructs houses and rents them to certain public employees. Instead of doing this, government may also award a housing voucher to public employees. Thus, the demand is shifted to the private sector.

5. Transportation Vouchers: In lieu of the provision of mass transit services by municipalities, the service can be carried out by private firms. Government may award a transportation voucher to poor, handicapped or elderly people for their free use of such transportation as private buses.

6. Food Vouchers: Government sometimes awards food stamps to poor people for their purchase of some foodstuffs. Here, government stays out of distribution of some foodstuffs to poor people via government agencies. Holders of food vouchers get foodstuffs from the private sector.

7. Clothing Vouchers: Government sometimes gives some clothing (such as shirts, suits, shoes, coats, etc.) to public employees free of charge. Instead of that, government can give a clothing voucher to those public employees and thus they purchase the clothes from private shops and stores.

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- The manager sometimes owns some equity stock in the public enterprise. This motivates the manager to run the public enterprise more effectively.

The rationale for management contracts can be summed up as follows: A management contract could be the first step to achieving privatization of ownership. A management contract is more important when government wants to transfer the ownership to a private firm, but also wants to return the public enterprise to a reasonable level of performance in order to attract private investors. It is a fact that public enterprises are operated with financial and management problems; therefore, productivity is very low in those enterprises. In this context, a management contract is a rational solution to rehabilitate the enterprise and prepare it for full divestiture.

Also, government may want to undertake a rehabilitation effort, the benefits of which can only be derived with improved managerial efficiency. In this case, the purpose of the government is not to sell the enterprise; rather its purpose is to address managerial, technical and financial difficulties through an injection of advanced management and other skills.

Thirdly, it could be necessary to improve management capacity, systems and expertise in the enterprise in order to reach a new and advanced technology.

Management contracts are common in such areas as the hotel industry, hospitals, homes for the aged, day-care centers, city bus and subway operations, and in some industries such as steel, fertilizer, chemical, textile, etc.

Management contracts have become very popular in many developing countries in the last two decades. They have been an important vehicle for transferring managerial, corporate and technological skills to public enterprises at all stages of growth and development. Some developing countries in Africa, the Middle East, Southeast Asia and Latin America have been implementing this system widely. The management contract has been particularly widespread in the private sector of industrialized countries.

There are many justifications for management contracts. From the standpoint of government, the most important benefit is that a management contract allows government to retain ownership. Moreover, government solves public enterprises' managerial and technical problems through a management contract. Another benefit

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is that technology transfer can be obtained by means of a management contract. Furthermore, improved managerial and technical expertise increases the profit potential in the long-run.

From the standpoint of the manager, a management contract allows a manager to receive an agreed income flow through a management fee and he probably can earn additional bonuses based upon such variables as performance, sales or other agreed criteria. A manager may also gain the market share in other countries, especially those in which direct foreign investment is welcomed.

There are also some disadvantages of a management contract. For government, the most important drawback is that the government has to give up control of day-to-day management and operation, although ultimate policy and budgetary control are normally retained. Secondly, the government has to pay an agreed management fee even if the enterprise does not make a profit. Third, government remains responsible for all operating expenses and debt payments. Fourth, management contracts are time-consuming and can be expensive to implement, both absolutely and relative to other options.

From the standpoint of a management company, the first advantage is that financial risk is low in comparison to that under leased or joint venture operations. If the business is operating below its break-even point, the owner, not the manager must make up the cash deficits. However, if the business is operating above its break-even point, the management company may realize a lower return than it would under alternative arrangements. In effect, the management company gives up some potential profit for less risk and investment. Secondly, the manager relies on the owner's financial strength. A manager has minimal influence over decisions regarding the sale or disposition of the business and/or major policy decisions affecting the direction of the enterprise, unless the management company has equity in the enterprise. Another drawback is that the owner may have the right to terminate the contract early. A manager also has no ability to deny the intervention of "external" factors such as political and bureaucratic interference and/or government policies.

Finally, there are some conditions for the successful implementation of a management contract system:

- The existence of a supportive external policy environment. Management expertise cannot be effective if severe price/tariff distortions or adverse government policies and interference hamper

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Table 4: The Benefits and Drawbacks of a Management Contract

Benefits	*Drawbacks*
For the Owner:	
-Allows ownership retention.	-Loss of day-to-day operational control.
-Provides managerial and technical expertise.	-Management fee generally payable regardless of profitability.
-Overall policy direction maintained.	-Owner remains responsible for all operating expenses and debt servicing.
-Technology transfer, which includes training and transfer of management and corporate skills.	-More expensive than other options.
- Access to new markets and international financing.	-Time-consuming and complex to structure properly.
-Greater profit potential in the long run due to improved management and technical efficiency.	-Possible drain on enterprise's foreign exchange supplies.
For the Manager:	
-Agreed income flow via management fees.	-Financial risk if prevented from earning performance payments.
-Compensation for service, usually with no equity risk.	-Dependence on owner's financial] strength.
-Means of establishing new markets.	-Lack of control in policy areas.
-Maintain presence in foreign market, especially in countries inhospitable to direct investment.	-Lack of control over "external" factors such as government interference, policies,
- Possible procurement raw material and product lie-ins.	-Risk of early contract termination.
-Device to adopt commercial strategies to changes in international market place.	

Source: Hegstad and Newport, 1987; 22.

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the promotion of efficient enterprises.

- The public enterprise must be viable. No amount of managerial skill can convert an ill-conceived project or unmarketable enterprise into a successful one.
- The government must be convinced that the management contract route is the optimum alternative and must be fully supportive of it.
- The government must give the manager sufficient management control and the authority to manage the enterprise in order to achieve the objective of the contract (Hegstad and Newport, 1987;4).

8. Leasing

Another method of privatization is "leasing," which is similar to the franchising and contracting-out method in the sense that both the management and operation are transferred to the private sector. However, leasing is a different arrangement from franchising and contracting-out. In a franchising agreement, the franchisee has special privilege or right to produce and supply the service. For a certain period of time, the franchisee manages and operates the service in keeping with the rules determined in the franchising contract. Ownership is retained by government under this arrangement. Under a contracting-out arrangement, a private firm manages and operates some services, like solid waste collection and disposal, by using its own employees as well as its own materials, tools, etc. The difference between a contracting-out and leasing agreement is follows: Suppose a local government rents its trucks to a private firm for the solid waste collection in the city. In this case, management and operation are carried out by the private firm. This represents an example of "leasing." On the other hand, solid waste collection can also be provided by private firm's own trucks and employees. In this case, government makes a contract with a private firm for the delivery of goods and services. This arrangement constitutes an example of contracting-out.

The basic differences among denationalization, contracting-out, franchising, management contract and leasing arrangement can be seen in Table 5 in detail.

9. Joint Venture

As noted earlier, privatization encompasses all practices aiming to reduce the role and scope of the public sector and to increase private sector activities in the national economy. Within this framework, the joint venture can be considered a privatization

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Table: 5: Consequences of Denationalization, Contracting-Out, Franchising, Management Contract and Leasing Methods

1. Denationalization (Transfer of Ownership of a Publicly-Owned Enterprise):

-Partial denationalization without management transfer: Up to 50 percent of the shares/assets of a POE are sold.
-Partial denationalization with a management transfer: More than 50 percent of the shares/assets – but not the whole – are sold to a private firm.
-Full denationalization: All the shares/assets of a POE are sold. Management and operation automatically pass to a private firm.

2.Contracting-Out:

2.1. Contracting-Out (Transfer of Management and Operation of Various Government Services):
-A private firm supplies a service by using its own employees, material, etc. Government has the right to monitor the private firm's management and operation in accordance with the rules written in the contract agreement. Refuse collection is an example for this type of arrangement.

2.2. Contracting-Out (Purchase of Goods and Services From Private Sector):
-Government purchases many goods and services (stationery, luncheon, spare parts, computers, etc.) from private vendors. Under a contractual agreement, school and government buildings can be constructed by private individuals and private companies.

3. Franchising (Transfer of Management and Operation of Natural Monopolies and Some Other Toll Goods):
-Franchising would be either exclusive or multiple. Government usually regulates the policy and management.

4. Management Contract (Transfer of Management of Publicly-Owned Enterprises and Establishments):
-Examples are public hospitals, rehabilitation centers, homes for the elderly, etc. Government retains the ownership of the public facilities under a management contract agreement.

5. Leasing (Transfer of Management and Operation of Some Public Services):
-Municipality leases its own trucks to a private firm for the delivery of solid waste collection. Management and operations are carried out by the private firm. Government retains the ownership.

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method. Joint venture, in this context, is a partnership of two or more firms. Joint venture firms (that is, the partners) agree to a common business target and to share accruing profits, losses and any other risks. A joint venture can be established in various fields, such as general trade, commodity exchange, technology development and exchange, consultancy services, training, product development; oil, gas and mineral exploration; international marketing, construction, etc. However, an industrial joint venture is the most common type of partnership (Jafri, 1987;1).

A partnership can be done between two or more private firms; however, it may be established between a private enterprise and public enterprise. The former can be named a "private sector joint venture agreement" and the latter a "public and private joint venture agreement" or simply a "mixed enterprise."

Both types of joint venture agreements can be made within the country or at the international level. A domestic joint venture is a partnership of two or more firms operating within a country. However, an international joint venture exists when a domestic public and/or private firm is involved in a business collaboration with a foreign public and/or private firm. An international joint venture is especially popular within developing countries. It is true that developing countries suffer for lack of capital accumulation, technical know-how, etc., to boost the economy. Therefore, international jointventure agreements are a reasonable means to achieve economic development in these countries. An international joint venture agreement is usually made between two firms, where usually one operates in a relatively developed country and the other in a developing country. A joint venture agreement covers almost all stages of industrial activity such as joint planning, production and marketing, thus enjoying the blessing of research and development in managerial and technological fields, copyrights and trademarks, experience, expertise, modern plants and machinery, as provided by the partner in the developed country. On the other side, cheap labor, raw materials, geographical advantage, better market incentives, etc., are offered by the partner in the developing country (Jafri, 1987; 2).

As understood, the main rationale for international joint venture investments is to help underdeveloped countries achieve economic growth and development. However, firms operating in developed countries also gain from this type of business collaboration, because

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there is a high probability for a reasonably good rate of return on investments.

One of the problems with this type of arrangement is that political and economic uncertainty and instability sometimes discourage a foreign private firm from participating in international joint venture agreements.

10. Build-Operate-Transfer (BOT) Systems

Build-Operate-Transfer (BOT) has been a popular method in some developing countries in recent years. The system is quite simple and seeks to attract foreign capital. Direct foreign investments are encouraged to build infrastructure facilities, petroleum exploration stations, entertainment centers, recreation facilities, etc., within the developing or host country. Upon completion of construction, the foreign private firm has the right to operate the facilities for a certain period of time agreed upon by contract. At the end of the contract, the facilities and establishments are transferred to the government.

Foreign private capital, particularly in the form of direct investment, plays an important role in economic development within developing countries. Domestic private capital investment could be insufficient due to such factors as lack of private capital accumulation, reluctance to undertake risk and uncertainty by private individuals and firms, etc. In this case, government usually establishes public enterprises in various sectors. Lack of modern technology, an unavailability of sufficient capital, and missing managerial and technical know-how are factors that may hinder a public enterprise's ability to work efficiently. However, foreign direct investment can contribute a great deal to developing countries. General economic conditions in many developing and underdeveloped countries offer a challenge to the private sectors of more developed countries to explore the significant opportunities that exist in the developing world. On the other hand, there is a high probability for a reasonable rate of return on investment. Despite political and economic instability and uncertainty in the developing countries, foreign investors can be offered some guarantees to attract investment.

11. Non-Profit Organizations

Non-profit organizations, which are sometimes called "Voluntary Organizations" or "Philanthropic Organizations," also provide some

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public goods and services. A non-profit firm is an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors or trustees. In addition to this main characteristic, which is called a "nondistribution constraint," a non-profit organization has some other features:

-They are often granted a variety of tax subsidies such as tax-deductible donations, special postal rates, and exemption from income and property taxation.

-They usually have no access to tax revenues for financial support; however, they sometimes get grants from government.

-They generally receive only a minority of their total revenues through donations from either private or public sources. Overall, their revenue is even more dependent on user charges, largely involving sales of services or dues from members (Hansmann, 1986, 58-59; Weisbrod, 1987).

According to this last characteristic, a non-profit organization is either "donative" or "commercial." A donative non-profit organization receives most or all of its income in the form of grants or donations from individuals, private firms and/or government. By contrast, a "commercial non-profit organization" receives the bulk of its income from fees charged for its services.

Non-profit organizations – donative or commercial – generally provide merit and club goods, such as rehabilitation and sanitation centers, housing for the elderly, drug-alcohol prevention and treatment centers, cultural activities (museums, private libraries, art galleries, symphony orchestras, theaters, etc.), hospitals, environmental protection centers, blood banks, child-care, nursing homes, etc.

Sometimes, non-profit organizations can be established via cooperation among inhabitants of a district. In this case, the neighborhood association or voluntary mutual aid association can either deliver services directly by using its members or employees or can hire a private firm as to provide services.

As understood, government is able to transfer some of its functions to those non-profit or voluntary organizations. However, a non-profit economy may exist only if government provides a great deal of incentives to those voluntary organizations.

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Conclusion

The term "privatization" is frequently used to refer to the sale of publicly owned enterprises' assets or shares to individuals or private firms. However, this definition gives only a narrow meaning of privatization. The sale of publicly owned enterprises' assets or shares to the private sector is sometimes called "denationalization." As a matter of fact, denationalization is just one method of privatization. In the broader meaning, privatization refers to efforts to restrict government's role and functions and to put forward some methods or policies in order to strengthen a free market economy. Within this context, privatization encompasses the many ways in which the private sector assumes functions that were previously carried out by the government. These may range from the sale of publicly owned enterprises to contracts with private firms to deliver public goods and services.

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Government's Role in the Private Sector: The Case against Reregulating Cable Television

Mark Biggerstaff
S. M. Ghazanfar
University of Idaho

The cable television industry has become one of the most controversial services in the U.S. economy. Consumers typically have two basic complaints about this service: poor quality and high rates. During the 1980s' Reagan era, cable television was among many industries that were deregulated. It has been argued that during deregulation consumer welfare was not maximized and that the industry enjoyed an unfair advantage. In response, Congress has moved toward reregulating the industry. The central issue in this move is what the effects of reregulation will be on both the consumer and the cable television industry. Some argue that reregulation would actually raise the subscription cost to the consumer and do nothing to stop the virtual monopoly that exists. Proponents of reregulation obviously disagree, leaving one to wonder what will actually happen in the future with regard to both price and service.

This paper argues that reregulation is not the answer and that greater competition must be encouraged in the cable television industry. After a brief synopsis of the current U.S. cable industry, the recent record of regulation and deregulation will be summarized. Then it will be argued that greater competition is the solution to improving cable television services. This will be followed by some discussion of how greater competition may be encouraged, and why eventually it is unavoidable.

The Cable Industry

Currently, there are more than 11,000 cable systems in the U.S. (Corn-Revere, 81). Nearly 95% of households have access and about 57% subscribe (Benoit, 37). The service varies widely, with an average of about 36 channels provided, but with the potential to double within the next few years. The industry was deregulated in 1984; and according to lawmakers, complaints by consumers have led

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them to reregulate the industry. But according to a survey of readers conducted by *Consumer Reports*, before the push toward reregulation, three-quarters of those polled said they were either very or fairly satisfied with their cable systems (Coy, 58). Nevertheless, consumers also stated by a three to one margin that they would like to see "another cable company come in and compete" in their area. By the same margin, however, readers agreed that cable is a "utility" and "should be regulated accordingly" (*Consumer Reports*, 584).

At this point in time, there is little competition for most of the existing cable systems, besides broadcast television. Cable has had no problem conquering "free" broadcast television, for obvious reasons--the main one being the sheer number of choices available. Only about 50 cable systems operate with traditional head-to-head competition. Rates between competing cable systems are often as much as 20 percent lower than for those in communities with only one cable system, and per channel charges can be as much as 50 percent lower. The average number of channels in such communities is the same (about 36), but local authorities typically view the wiring of communities for two cable systems as impractical and grant exclusive contracts to only one system, effectively snuffing out competition before it can start to do its work of improved efficiency. In addition, these cable systems also often buy out the competition or wage court battles to retain exclusive franchises. In 1990, nearly 50% of the cable television market was controlled by the four largest cable corporations. Only once between 1984 (deregulation) and September 1991 has a city been able to oust its cable system (*Consumer Reports*, 583-584). It is important to note here that there is little evidence to support the claim by the cable industry that cable television is a natural monopoly, meaning that having one system is cheaper to build and operate than having competing systems serving the same area (Evans, 26).

At the same time, however, we observe that cable rates have risen dramatically. Between 1986 and 1991, the government's cable television index rose 53.4%, more than twice the overall rise in consumer prices (Coy, 59). Between 1987 and 1989 the increase was 36%, triple the rate of inflation (*Consumer Reports*, 583). It is this situation that has led to the reregulation of the industry. When Congress returned in the fall of 1993, many aspects of the television industry were at the top of the priority list, including cable rates

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(McAvoy, 51), and at the present time rates are still a priority of the new Republican Congress (Robichaux, B5).

The deregulation effort served the cable industry well. In the early 1980s the industry announced that it was in favor of deregulation. This was seen as an unusual situation, since most industries at the time were behind the regulation of their respective industries from the start. The cable industry had lucrative monopoly franchises they had been granted by city halls across the country, and it seemed they were about to throw this all way. But the deregulation favored by the industry did not include eliminating the sort of controls provided in these monopoly franchises. The 1984 Cable Act was seen by many as giving the industry a great victory by firming up the rights to renew municipal purchases while eliminating any rate-setting authority by local governments (Evans, 26).

The move toward reregulation came at a time when the cable industry was having to face new technological challenges, along with potential competition from such giants as the telephone companies. Some new technologies have been making an appearance in different markets, and some have been tested by cable companies. For the most part, however, the communication industry has seen itself frozen into a pattern outdated by technology some years ago. Generally updating equipment has been difficult and expensive and the resources needed to update systems have been difficult to obtain because the average consumer has experienced a considerable increase in rates since deregulation was instituted (Evans, 27).

The battle has pitted the cable interests against the broadcast interests, and both sides have considerable lobbying power. The fundamental problem between the two is that cable has three revenue streams--subscriptions, advertising, and pay-per-view; and the broadcasters have only one--advertising. Yet it is the cable industry that has been protected by government regulators and lawmakers (Benoit, 36). Cable representatives argue that the recent increases in the rates reflect a leap in the quantity and quality of original programming, but consumers have not bought this argument. Cable television was also helped when the copyright law was changed in 1976, which not only gave the industry the right to retransmit local broadcast signals for free, but also allowed them to carry distant television stations for fees that were below an estimate of what they would have had to pay in a competitive market situation (Coy, 58).

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Cable Industry Regulation, Deregulation and Reregulation

The first round of federal cable regulation started in California in the early 1960s when several cable innovators began microwaving Los Angeles television signals to San Diego to provide expanded channels to the consumers there. Federal regulators stopped this move, which was consistent with the desire of the National Association of Broadcasters to protect their signals in local markets. The Federal Commerce Commission (FCC) made certain that new cable channels were kept out of homes for the next 15 years. This was an example of broadcaster protectionism that has been repeated in different forms several times since, up to and including the 1984 Cable Act. Ten years of explosive growth preceded that act, and the cable industry saw huge viewing-share increases compared with broadcast television (Evans, 26).

Congress deregulated the cable industry in 1984, which freed cable operators from having to negotiate rates with the communities they served (*Consumer Reports*, 583). The problem with this "deregulated" cable is that it did not allow phone companies to compete with cable systems and did nothing to prevent the lucrative practice of monopoly franchising. These two issues are the core of the runaway price hikes that followed "deregulation" (Evans, 26). The industry explains the rise in prices in terms of "you can't buy filet mignon for the price of hamburger," which suggests that quality improved while prices were rising . If more channels mean more quality, one must assume they are correct. However, only about 25 cents of each subscriber dollar is spent on programming (*Consumer Reports*, 583). The 1984 Cable Act was seen by many as giving the cable industry a great victory by firming up the right to renew municipal franchises while eliminating any rate-setting authority by local governments (Evans, 26-27). There was little debate that the "deregulation" in 1984 would do little for consumers and, instead, profit the cable television industry.

Acting on its own perceptions of what is best for the consumer, Congress decided to reregulate the industry in the early 1990's. On October 5, 1992, Congress voted to override President Bush's veto and The Cable Television Consumer Protection and Competition Act became law. The Bush Administration had vetoed the bill on the basis that only competition, not regulation, would help consumers (*National Review*, 15-16). The law was a compromise of earlier

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House and Senate bills. It contained the provision that gives broadcasters the option to demand free carriage ("must carry") or negotiate payments or some other compensation from cable systems for the right to carry their signals. The FCC was granted the power to regulate prices on "basic" packages.

In April 1993, the FCC voted to cut cable rates by as much as 15% and also issued an immediate freeze on all cable rates for the following four months. According to the FCC, about 75% of all cable systems were to be affected by the rate rollbacks (Flint, 6). As popular as rate rollbacks are to Americans, they have created some perverse incentives. The cable rate rollbacks are applied on a price-per-channel basis. To reduce costs and not hurt their cash flows, the industry responded by adding "fishbowl" channels (images that cost virtually nothing to produce). They also added more home-shopping channels which actually pay the cable operator to be carried. Quality has suffered because the more expensive the channel, the harder it is to squeeze under the price caps (Hazlett). Further, since the FCC has the power to regulate "basic" packages only, this has led to the redevelopment of pricing tiers, which existed before the industry was deregulated. These consist of "premium" channels that are beyond the FCC's control to regulate, with the effect that any price can be charged (Stern, 60).

One provision of the 1992 Cable Bill that would have helped consumers, allowing competition from telephone companies, was removed from the final version of the law, thus making its bold title impotent. The law also did virtually nothing to eliminate the problem of monopoly franchising that exists. Since the municipalities created this situation in the first place and since they collect a franchise fee on a percentage basis, they have no incentive to change their behavior (Evans, 26-27). It is clear that reregulation, like the 1980s version of "deregulation," has not helped the consumer.

Competition as a Solution

The issue of competition is the focal point in both the argument for and against cable regulation. Both sides see their solution as the way to provide more competition in the industry, thus maximizing consumer welfare. However, as just stated, the 1992 Cable Act, despite its bold title, did little to foster competition. It did not allow the deep pockets of the telephone industry to compete with cable

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operators in the same area. It also did nothing to prevent the problem of monopoly franchising. Exclusive franchises are still being granted by municipalities. Since these governments have a financial interest in the monopoly profits (franchise fees), they have little incentive to change their behavior (Evans, 26).

The argument for regulation of the cable industry seems to rely on a false premise. It is argued that the cable systems represent a "natural monopoly," meaning that one system can provide a service cheaper than competing companies in the same area (why dig up the town twice?). It would then follow that the only way to control prices would be to regulate the industry, much like local telephone systems and power companies. Consumers seem to believe this argument also.

However, cable is not a "natural monopoly." A study by *Consumer Research* pointed out that it is quite feasible for cable companies to compete directly and that numerous technologies exist that could provide alternate service (i.e., phone companies) (Evans, 26). A study in 1990 found that consumers in areas where there is no competition pay rates nearly 20% higher than those where direct competition exists. Based on these figures, a fully competitive cable industry could save consumers as much as $2 billion dollars a year (*Consumer Reports*, 583).

The case of Allentown, Pennsylvania, is a good example of what can be achieved when competition exists. Two cables systems have been competing for business there for over 25 years. One company built from the North, the other from the South. As they met they began "overbuilding," wiring each others neighborhoods. They literally fought house to house for customers. If a consumer became dissatisfied with one company, he simply switched to the other. Eventually, the town became wired for two cable systems, and the entire market is basically split between them, although no longer in geographic terms. The result is that Allentown households pay below average rates for above average quality due to this direct competition. Franchise fees are simply collected from both cable systems, so the city does not lose any revenue from the competitive situation (Benoit, 35-37). This example is significant in blunting the "natural monopoly" argument. If telephone companies were also allowed to compete in this situation, the savings could have been substantially more, since they are already wired to virtually every household in the country.

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Increasing Competition

The future of the cable industry is uncertain, but not without hope. The new Republican Congress could play a key role for finally allowing greater competition in the industry. Newt Gingrich appears to be for total deregulation of the industry. "Let the technologies sort themselves out over the next 10 or 15 years. Then, Congress can revisit the issue of whether you need regulation" (McAvoy & West, 6). It is disconcerting, however, that his colleagues in the Senate currently seem more intent on rewriting the 1992 Cable Act, rather than abolishing it altogether and deregulating the industry (Corne-Revere, 81). The Clinton Administration seems to prefer regulation as the solution also (McAvoy, 45).

Direct-broadcast satellite services (DBS) are becoming more popular to consumers as an alternative to cable operators. This technology uses satellites to directly broadcast signals to an individual household, received through a dish approximately 15 inches in diameter. Their markets are rapidly growing and prices declining (Corn-Revere, 81), but currently they reach only about 1% of cable's 60 million subscribers (Robichaux, B5). The downside of this new "competition" is that cable companies are rushing to get into this service also (Benoit, 37). So it is not impossible to suggest that cable companies could effectively buy out this threat, with consumers ultimately paying more through more monopoly pricing.

Surprisingly, the court system may end up solving the problem of lack of competition in the cable industry. A Federal judge in March 1995 removed the last of the barriers that prevented the Baby Bells from competing nation-wide directly with cable operators. Bell Atlantic convinced the Federal Court (that oversees all seven of the regional Bell companies) that current law violated its rights under the First Amendment to disseminate information (Landler, 1). Bell Atlantic plans to test video services almost immediately (Landler, 21).

As stated before, deregulation had not proven to foster healthy competition, as originally stipulated, and recent reregulation appears at best to be an interim solution by setting rates on "basic" services. Competition would force cable companies to deal with excessively high prices as well as service problems, or else they would lose customers. Reregulation seems to create distorted incentives through bureaucracy and regulating bodies who may not, and usually do not, have consumer welfare in mind.

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Concluding Remarks

It should be very clear that the history of government involvement in the cable industry has not served the interests of consumers, but rather of cable operators. Both the deregulation of the 1980s and the reregulation of the early 1990s failed. The false assumption that cable was a "natural monopoly" drove Congress to needless actions. The end result was to deny much-needed entry into the industry, distort incentives, and effectively delay the technologies available from being put to their most efficient and productive uses. It also appears that lawmakers have not recognized, much less learned from, the mistakes of the past. They could quite possibly interfere again by rewriting the failed 1992 Cable Act. But the court system may have at last saved the day, finally allowing the inevitable, real competition for the cable industry. Consumers will finally benefit and pay the true cost of the channels they receive. And perhaps best of all, there might be more quality (market determined) and less "fishbowls" to watch. Consumers do not need rate rollbacks; they simply need a choice.

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The Decline and Fall of the Freudian Empire

Hans J. Eysenck, Ph.D., D.Sc.
University of London & Maudsley Hospital, London

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Freudian theory has recently attracted considerable attention as new developments in science and statistical processes have brought the validity of his conclusions into question.

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Is There Bias in U.S. Law Enforcement?[1]

Russell Eisenman
McNeese State University

Some have suggested that the death penalty should be based on an ethnic quota system, given the assumption of racism in the imposition of capital punishment (Aguirre and Baker, 1990). Blacks are arrested at a disproportionately high rate in the United States relative to whites, Asians, or any other group, but those who advocate an ethnic quota for the death penalty maintain that the high arrest rate of blacks is evidence of racism among the police, and not of a higher rate of crime among America's blacks than among other American racial or ethnic groups. On a recent television discussion on cable channel CNBC between J. Philippe Rushton, who believes that there are genetic differences between blacks and whites, and black attorney Raymond Brown, who took an egalitarian position, Brown alleged that the high arrest rate of blacks in the United States was due to white racism, while Rushton countered that blacks have a high crime rate throughout the world. Rushton said that blacks have a high crime rate in central Africa, where there are no whites, so white racism could not be the explanation there (Rushton & Brown, 1994; see Rushton, 1994 for his views on race, and Herrnstein and Murray, 1994 for another view also linking genetics, intelligence, and black crime). But environmental factors can make a difference, too. In the present article, we look at the figures relating to arrests of whites and blacks in the U.S., and try to interpret the nationwide data, which come from the Federal Bureau of Investigation (FBI).

Murder

One indirect way to check out the accusation of racism would be to look at arrests for murder. Police could selectively arrest blacks for other crimes, but murder is mostly straightforward in that there is a body, the killer is often known (people may have seen the crime or have heard the killer and the victim quarreling before the murder),

[1] Send correspondence or requests for reprints to Russell Eisenman, Department of Psychology, McNeese State University, Lake Charles, LA 70609-1895, USA.

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and the offender is frequently related to the victim (husband, wife, boy friend, girl friend) or was a friend or acquaintance. Also, there may be a murder weapon bearing fingerprints. Thus, it would seem difficult, if not actually impossible, for police to discriminate in an unfair manner by arresting large numbers of blacks for murders actually committed by whites. Also, one can look at different types of crimes (violent crimes vs. property crimes) to see if arrests differ by race and by how much.

Statistical Fallacy

Amazingly, one often sees articles that make statements like "Most rapes are committed by whites" or "Most drug offenses are by whites." Such statements give a false impression of the criminal tendencies of white and non-white groups by directing attention to the total number of crimes without reference to the disparate numbers of whites compared with minorities. Blacks, whom those who make accusations of white police racism are actually seeking to defend, are but a small portion of the population, about 12%, compared to non-Hispanic whites who are around 75% of the population. If Hispanic whites are included in the white total, the figure would be above 85%. To compare the total number of crimes committed by whites and blacks without taking into account the basal demographic statistics is ridiculous, yet it is repeatedly done. Either the writers are incredibly ignorant regarding percentages or they are consciously trying to confuse the public concerning the facts about the crime rate.

Egalitarianism and Sympathy for Minorities

Commentators are minimizing black crime rates in the United States due to egalitarian beliefs like those of attorney Brown, mentioned above, (Rushton & Brown, 1994) when they claim that white racism in the criminal justice system accounts for the large numbers of blacks who are arrested, convicted, and sentenced to prison. Such commentators argue that, quite regardless of whatever environmental of biological factors may be responsible for crime, American blacks are simply not more criminal than American whites – that they are simply arrested and prosecuted more often than whites. Some perhaps adopt this false argument out of sympathy for blacks, seeing them as victims of years of discrimination by whites

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ranging from slavery to present-day injustices of the kind they are alleging.

A striking example of such deliberate distortion of the facts can be found in an article titled "Police Racism," which acknowledged that black arrests in a selection of different U.S. cities nationwide ranged from two to 27 times the number of arrests of whites (*Turning the Tide*, 1993). Instead of seeing that the numbers indicated a high black crime rate, the authors portrayed this as evidence of "police racism." In contrast to the views of Rushton (1994) and Herrnstein and Murray (1994) who posit a genetic component among the factors responsible for high black crime rates, Breggin and Breggin (1994, 1995) carrying the debate into deeper ground, arguing that genetic theories of crime are racist and should not even be investigated. Breggin and Breggin describe genetic theories about crime or violence as unscientific, and say that they lead to blacks being blamed for misdeeds when the real basis for crime is white racism, unemployment, failure to provide government support for black children, etc. Thus, the Breggins either (a) reject any notion that blacks are in fact responsible for a high percentage of crime, or (b) imply that even if blacks are shown to have a high crime rate, it is really the product of widespread U.S. racism and that blacks should not be blamed. While Hughes (1995) argues that an enquiry should be made into the possibility of a genetic component behind criminal behavior, and against attempts to stifle scientific research in this area, the Breggins have adopted a political position that makes such areas of research taboo.

Table 1 summarizes data concerning arrests for criminal offenses. The data are from the Department of Justice, Federal Bureau of Investigation (1992), and relate to 1991 arrests of both juveniles and adults. They come from 10,110 agencies, serving a U.S. population of 192,939,000. The data show that blacks, despite their low numbers in the population, actually had more arrests than whites for murder and non-negligent manslaughter (7861 whites arrested, 9924 blacks), robbery (51,217 whites arrested, 83,146 blacks), and gambling (5581 whites arrested, 5843 blacks). Other crimes also show a disproportionately high rate of arrests for blacks. For example, for forcible rape, 16,306 whites were arrested vs. 12,960 blacks. For drug abuse violations, 443,596 whites were arrested vs. 312,997 blacks. The arrest data are consistent with Rushton's belief that there are strong

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TABLE 1: Arrests by Race in the U.S. 1991

Offense	White	Black	Other[1]	Total
Murder[2]	7,361	9,924	311	18,096
Forcible Rape	16,306	12,960	501	29,767
Aggravated Assault	218,628	139,407	6,215	364,250
Burglary	222,817	94,688	6,165	323,670
Larceny-Theft	792,895	368,053	29,089	1,190,037
Motor Vehicle Theft	93,728	62,918	3,457	160,103
Arson	11,309	3,164	265	14,738
Violent crimes[3]	294,012	245,437	8,840	548,289
Property Crimes[4]	1,120,749	528,823	38,976	1,688,548
Other assaults	498,497	257,121	16,398	772,016
Forgery/counter-feiting	48,535	25,264	1,070	74,869
Fraud	197,643	91,230	2,655	291,528
Embezzlement	7,202	3,195	168	10,565
Stolen property – buying, receiving, possessing	73,908	54,011	1,690	129,609
Vandalism	189,474	55,014	4,764	249,252
Weapons – carrying, possession, etc.	98,609	72,137	2,744	173,490
Prostitution and commercial vice	47,517	29,943	1,319	78,779

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Sex offenses, except forcible rape and prostitution	63,185	15,985	1,668	80,838
Drug abuse violation	443,596	312,997	6,747	763,340
Gambling	5,581	5,843	1,040	12,464
Offenses against family and children	47,304	20,942	2,699	70,954
Driving under the influence	1,129,876	115,724	25,113	1,270,713
Liquor laws	391,991	43,576	13,313	448,880
Drunkenness	507,571	102,307	15,249	625,127
Disorderly conduct	365,765	182,414	10,325	558,504
Vagrancy	15,735	14,341	679	30,755
All other offenses except traffic	1,542,890	831,857	53,293	2,428,040
Suspicion	4,150	5,964	70	10,184
Curfew and loitering law violations	55,389	14,819	1,829	72,037
Runaways	102,683	20,355	4,589	127,627
Total	7,251,862	3,049,999	215,238	10,516,399

1. Includes American Indian, Alaskan Native, and Asian or Pacific Islander.
2. Includes non-negligent manslaughter.
3. Violent crimes are murder, forcible rape, robbery, and aggravated assault.
4. Property crimes are offenses of burglary, larceny-theft, motor vehicle theft.

NOTE: Figures represent arrests reported by 10,110 agencies serving a total 1990 population of 192,939,000 as estimated by FBI. Source: Department of Justice, Federal Bureau of Investigations, Uniform Crime Reports for the United States, 1991, released 1992.

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correlations between crime and race. In the U.S., it would seem, unless massive police bias can be demonstrated, offenders are disproportionately likely to be black, and disproportionately unlikely to be white, *relative to their numbers in the population.* In fact, for three categories of crime – murder and non-negligent manslaughter; robbery; and gambling – black arrests exceeded 50%, which is amazing, given their relatively small numbers (about 12%) in the U.S. population.

Violent Crimes vs. Property Crimes

The data can be broken down into the FBI classifications for violent crimes (murder and non-negligent manslaughter, forcible rape, robbery, and aggravated assault) vs. property crimes (burglary, larceny-theft, and motor vehicle theft). The data show that blacks are especially more likely than whites to be violent offenders: for violent crimes, there were 294,012 arrests of whites and 245,437 arrests of blacks. Whites committed a slightly greater number of violent crimes than blacks in absolute numbers, but given the much greater number of whites than blacks in the population, these data show that blacks are disproportionately likely to commit violent crimes. For property crimes there were 1,120,749 arrests of whites and 528,823 arrests of blacks. Given the great poverty of many blacks, one might think that the property crime rate would be just as high as, if not higher than, for violent crimes; but the arrest data suggest that black criminals are more likely to commit violent crimes than property crimes. If police discrimination (in the bad sense) and racism were involved, one would think that this would apply to property as well as to violent crimes. But black arrests are disproportionately much higher for violent crimes than for property crimes.

Race Differences for Juveniles

The above data are for adults and juveniles combined. Data on juveniles can be difficult to obtain, since records are often secret, sealed, etc. However, we previously presented an analysis of nationwide data on juvenile crime with much the same type of findings as above: blacks were disproportionately arrested, especially for violent crime (Eisenman and Kritsonis, 1993). Thus, even as juveniles, blacks have a high crime rate, with violent crime being especially frequent.

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Conclusions

Black vs. White Crime Rate

While one cannot totally disprove the assertion that blacks have high rates of arrest due to prejudice in the criminal justice system, the data reported here appear consistent with the idea that blacks truly have a higher crime rate relative to whites. As we have observed, it would seem particularly difficult for the police and the criminal justice system to persistently frame blacks for murder. The FBI data show that for whatever reason black adults are more prone than white adults to commit violent crimes, and Eisenman and Kritsonis (1993) found the same to be true of juveniles.

Other Minorities

A word needs to be said about crime among other minorities, such as Asians, American Indians and Pacific Islanders. Arrests of this category of criminals are low in the United States. The FBI data lump these minorities together under "others" and reveal relatively small numbers. For example: for murder, 311 "others" were arrested in 1991; for forcible rape, the figure was 1813; and for drug abuse violations it was 1040. Thus, these other minorities do commit crimes, but have a low arrest rate, which would be even lower for some groups if it were broken down into specific racial or ethnic groups rather than combined together as "others." Asian arrests might be expected to be especially low, given their achievements in the United States in socially acceptable areas such as school grades, test scores, occupational income, percentage in graduate school, etc. (Bell, 1994; Eisenman, 1993; Lynn, 1987; Stone, 1992; Sue & Okazaki, 1990).

We should warn here that people should be judged as individuals. As the reader will readily appreciate, the data do not in any way imply that blacks as individuals have criminal proclivities or are prone to violence, etc.; and very obviously they do not suggest that all whites or "others" are less prone to crime. More whites are arrested than any other ethnic group, and while Asians probably have a very low crime rate overall, Asian youth gangs are notorious, especially in California and New York City, and their members are highly crime-oriented. Nevertheless, for whatever reason, the data do suggest an incredibly high crime rate among blacks in the United States, especially in respect of violent crime. This cannot be explained away as due to police prejudice. Given their numbers in the population, U.S. whites

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are disproportionately low in crime. This could be due to environmental factors correlated with race: for example, a much higher percentage of blacks than whites live in poverty (Eisenman, 1992; National Youth Employment Coalition, 1991), and poverty may account for much of the relationship between race and crime. But charges of bias in U.S. law enforcement are not the explanation.

Jesse Jackson Agrees

There are also practical issues. In contrast to the articles that say that whites are more likely to commit such-and-such crimes, we can say that blacks in the United States are especially likely to commit a whole host of crimes, especially violent ones. Many people intuitively know this; the FBI arrest data show that their intuitive fears have some basis. As Rev. Jesse Jackson, a prominent black leader, said, when he walks down the street late at night and hears footsteps behind him, he is relieved if, when he looks back, he discovers that the footsteps belong to whites instead of blacks. This is quoted on page 254 of *Winters* (1995) under the heading "Nothing More Painful." FBI data suggest that his feelings on this matter are not due to prejudice, but to the high percentage of offenders, especially in respect of murder and other violent crimes, found in the black community relative to that in the white and other racial or ethnic communities.

Misleading Interpretations

Sometimes the statements that seem designed to protect the image of the black community may be true *per se*, but misleading overall. For example, many reports in newspapers, magazines, and books emphasize the high victimization rate for blacks. This is true, but it is largely due to crimes committed by other blacks. Elias (1993) complains that "Minorities are the ones arrested in most drug busts even though whites consume more illegal narcotics" (p. 85). Yet what Elias ignores is that minorities are often the drug dealers and whites part of their consumer group. It makes some sense for police to focus on the dealers of drugs more than on the consumers. For example, from this researcher's prison work we know that the cocaine dealers in Southern California were mainly black and Hispanic youth gangs. While many of their clients were white, the greater damage to society would seem to be the dealers rather than the consumers of illicit

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drugs, and hence the tendency of police to focus on them is not racist. Not all drugs in the United States are dominated by minority suppliers, but many are. An exception is the methamphetamine trade, which is controlled primarily by white motorcycle gangs.

An amazing lack of understanding of percentages and reality is provided by McQueen (1995), who says that whites should not be afraid of blacks because it is whites who commit most of the crime in the United States. She refers to a 1989 ABC/*Washington Post* poll which asked Americans whether it was "common sense" or "prejudice" for whites to avoid black neighborhoods out of fear of crime, "... three-quarter of the whites answered: common sense" (p. 247). McQueen thinks that this is irrational and writes "In fact, in 1990 whites committed 54% of all violent crime while blacks committed 45%." She admits that the figure for black crime "is still far above the 12% of the total population represented by blacks" (p.247) but does not seem to understand the implications of this last statement. She refuses to acknowledge the significance of the vastly disproportionate amount of crime by blacks relative to their numbers in the population. She commits the fallacy we mentioned in the first part of this paper: not taking into account the high ratio of criminal activity in relation to the basal numbers in the population.

Validity of FBI Data

An important question is: Can we believe the Federal Bureau of Investigation data? One criticism that has been raised points out that FBI figures are based on the reports submitted by police departments, and that the latter may have their own motives for distorting the arrest data (Eisenman, 1991). For example, they might exaggerate the amount of crime in order to obtain increased funding. True, the police might be tempted to show a falsely high crime rate; on the other hand, to show that they were doing their job, police departments could be tempted to show that they had kept crime low. Hopefully, the two different motivations would tend to balance out, and the reports would then be more or less accurate on average. Since the FBI data are based on reports from 10,110 police agencies serving a population of 192,939,000 people, there may be enough true findings to overcome any inaccurate reporting.

However, there is still enough of a question about any data based on self-reporting to warrant further investigation into the issues

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discussed here. For example, one could look at groups known to cause violence, such as youth gangs. In one such study, we found that in the prison in which we were working, over 50% of the black and Hispanic prisoners were gang members as opposed to less than 50% of the white prisoners (Eisenman, 1994, p. 247). McQueen does not seem to understand the various approaches that could be utilized, such as interviewing victims of different kinds of crime. We would expect that such investigations would throw further light on this issue.

Crime as a "Symptom" of "Disease"

Despite the unfairness of the accusations that the high rate of black arrests is evidence of "police racism," some people who make this claim may believe that they are doing the black community a favor by minimizing black crime. But an alternative way to look at the issues is this: the high rate of crime, especially violent crime, within the black community in the United States constitutes a problem which is damaging to the black community, much like a disease is harmful. Furthermore, it may be regarded as a symptom, just like the symptoms of a disease, of the existence of a serious problem which needs attention. One would not think of somehow curing a disease by ignoring the symptoms, or denying that they exist. Instead, the symptoms need to be understood before a proper diagnosis can be made. Once a correct diagnosis has been made, there is a basis for attempting to develop a suitable regime for treatment. In this instance, the symptoms are represented by the kinds of data reported here, which do not suggest that the disease is "police racism." The statistics relating to the black community's high arrest rate for criminal activities can be seen as a symptom crying out for recognition and action. If we deny this symptom by an attempt to deny that the arrest rate points to a high crime rate – by shrugging off its significance by pretending that it only reflects anti-black bias by the U.S. legal justice system – is doing everyone, and the black community above all, a great disservice.

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Diseconomies of School District Size

Gary M. Galles
Robert L. Sexton
Pepperdine University

In 1942, there were 108,579 school districts in the United States. A little over 50 years later, school district consolidation has reduced this number to less than one seventh its previous level, with many times the enrollment per district of the earlier period. Some big city school districts, such as in New York and Los Angeles, now serve over 600,000 students.

This massive school district consolidation was driven by the presumption among education professionals that there were economies of scale in education (lower costs or greater value provided per student for larger numbers of students). But while educators have argued for economies of school district size, often resulting in the creation of massive school districts in search of promised efficiencies, they have not demonstrated those efficiencies in practice.

In fact, the accumulated evidence points to the clear conclusion that, except for consolidations of very small districts, there are no economies of scale to local education.[1] That this common answer is generated across many studies with different methodologies, data sets, and time periods strongly indicates that it is time to undo the overly centralized system that has been constructed, if taxpayers are to get their money's worth and students are to be adequately served. That is, it is time to undo the wave of consolidation that educrats have imposed on American public school districts and that persists today,

[1] See, for instance, William Niskanen, "Student Performance and School District Size," Paper presented to the Sixth Annual Critical Issues Symposium: "Competition Among Governments, Efficiency, and Economic Growth," Florida State University, March 8-10, 1990. Similarly, Herbert J. Walberg and William J. Fowler, Jr., in "Expenditure and Size Efficiencies of Public School Districts," *Educational Researcher*, October 1987, found that "The results contradict the hypothesis sometimes put forward that large districts are more efficient ... These striking trends confirm other recent studies of district size and suggest that the policy of district consolidation undertaken by states in this century may have hurt rather than helped learning since they suggest diseconomies rather than economies of scale."

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despite the lack of empirical support or convincing arguments that it achieves its purposes for either students or taxpayers.

The fact that empirical studies consistently indicate diseconomies of school district size with respect to student performance, exactly opposite the economies claimed by consolidation supporters, suggests that we question the adequacy of the "optimal school district size" theory those consolidations were based on. This theory is indeed lacking. Larger scale, centralized organization fails to efficiently provide school services because it produces adverse incentives that swamp any advantages centralization may have. And those commonly overlooked incentives are the key to an informed understanding of school district organization.

As public choice theory clearly informs us, the details of the economic incentives facing decision-makers are crucial to an understanding of any institution.[2] School districts are no exception.

One of these important details is that in education, there is no clearly defined maximand – in fact, educators are far from agreement on what set of outputs to measure, much less on their relative importance. One result of this is that teaching is an art, practiced differently by people with different capabilities and instructional approaches. It is not an objective science that points to a single set of proper practices which can be uniformly imposed from a centralized decision-making authority.[3] One consequence is that the centralized directives that characterize overlarge school districts often force teachers away from what works best for their students.

It is hard to find the logic for economies of scale in centralizing control over something universally admitted to be an idiosyncratic art whose output we have trouble even defining, much less measuring accurately (you don't see many artists who have found economies of scale in joining together on a large scale to produce better art). Centralization, with its top-down bureaucratized system, precludes any real educational accountability of teachers to parents or students. Rather, it leads to teachers being accountable to the central

[2] See, for instance, James Gwartney and Richard Wagner (eds.), *Public Choice and Constitutional Economics*, JAI Press, 1988.

[3] See John Chubb, "Making Schools Better," *Manhattan Paper No. 5*, Manhattan Institute for Policy Research, 1988, pp.7-8.

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administration for doing what they mandate.[4] Rather than improving educational achievement, those rules are more often the barrier to schools and teachers being able to better accommodate the wishes of students and their parents in search of better education.

Not only does public education have no clear maximand, such as profits in the business world, which would give educators a more objective indicator of whether their customers think they are on the right track, but monitoring of public schools is also much less diligent than for similar private undertakings.[5] This is increasingly true the larger the district involved, because any individual parent's involvement and input become less and less likely to change policy as a result. This reduced incentive for active involvement in turn opens the door for centralized school districts to create policies and programs with little real parental input and then to maintain them even if they fail to improve the education that is delivered.

This is why those schools with strong, accountable principals and agreement on academic success as the primary goal can produce superior results, whether in large or small districts, public or private schools. However, the larger the school district, in general, the more hierarchical it is, and the weaker is the principal's authority, the agreement on goals, and the extent of monitoring. It is not surprising, then, that larger school districts do consistently worse by their students than smaller ones.[6]

Looking at some of these incentives created by overly centralized public school districts helps us see why there is an increasing level of support for school voucher plans throughout the country. Parents see that as a way to reestablish real accountability where other "reforms" have failed. However, such proposals seem doomed to failure at this time because of opposition from politically powerful teachers' unions.

Another approach being proposed is simply to break up large

[4] John E. Chubb and Terry M. Moe make this point in "Autonomy and Accountability," *Cato Policy Report* 12(1), January/February 1990, p. 12: "...the accountability that would be provided by market forces is different from the accountability that is provided in the current system. Schools would be more accountable to students, parents, and teachers less accountable to bureaucrats, politicians, and the interest groups that influence them."

[5] See Gary M. Galles, "Strike Made Small Progress Against Monopoly School Problems," *Los Angeles Daily News*, June 1, 1989, p. 25.

[6] See John E. Chubb and Terry M. Moe, op. cit., pp. 4-11, and Seymour Fliegel in the same publication, pp. 11-17.

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school districts. However, that approach faces the risk of breaking up school districts in an ineffective way – one which did not significantly improve incentives – such as might result from the political clout of teachers' unions and administrators in forming the details of the replacement organizations.[7] Further, a move to merely break up larger scale local monopolies into more, smaller local monopolies, while still denying parents and students any substantial school choices beyond which monopolistic district to live in, could hardly be termed true accountability. Such "reforms" would be unlikely to succeed at anything more than eroding the underinformed public's support for the sorts of real structural reforms that would make a contribution to educational quality.

Even where voucher or breakup reforms are politically infeasible or would be undermined by teacher union opposition or restrictions, one approach that still gives cause for hope is that of transforming large school districts from financing and administrative entities into financing entities alone. Such a transformation would dramatically expand parental choice, by replacing centralized district command and control mandates with a mandate to please their real customers, however that is to be accomplished.[8]

The difficulties encountered in appropriately designing workable reforms of the current overcentralized school system also remind us of how important decentralization will be to future advances as well as current ones.

When consolidation fever took over the education literature, it did so in the absence of evidence, pro or con. By the time that evidence had begun to accumulate against larger school districts, however, a substantial set of interest groups had been created which strongly opposed stopping or reversing the centralization trend. Further, those interest groups have been able to take advantage of rational ignorance of voters and parents (itself a product, in large part, of the unresponsive nature of public school monopolies) by

[7]An example of this sort of structural change would be one in which teachers could not be fired regardless of performance, or in which more successful teachers' only rewards for higher popularity were more students, classroom crowding and work, but not higher pay, and less successful teachers faced the reverse.

[8] The analogy to the choice between command and control and effluent standards as strategies of pollution control seems quite strong in this case.

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making the plausible sounding argument that better education lacked only more funding, not substantial reform.

These pro-centralization interest groups, combined with the perpetual excess demand for public education services caused by their zero direct price to the recipients, has allowed the public education lobby to effectively act much like budget maximizing bureaucrats.[9] Teachers and administrators have used the bargaining advantages of larger district size to extract better terms from school boards, but the geographically restricted competition allows them to capture those gains for themselves rather than passing them on to their "customers" in higher quality educations.

Unless school choices are decentralized, these conditions will lead to effective opposition to any attempts at reform, in the future as well as in the present, that do not also advance the self-interest of administrators and teachers. But administrators in particular are unlikely to support even highly productive reforms that reduce their power and incomes, as decentralization would. If that hurdle is not overcome now, it will remain an obstacle to meaningful reform until it is.

Despite the discouraging consequences of America's trend toward more centralized public school systems and the difficulties encountered in trying to undo that centralization, there are increasing signs of hope. The failures of our educational system are becoming increasingly well documented, and that adds to the public outcry for effective reform, without which advances would be impossible. Further, as the differences between the educational gains touted by school centralization advocates and what has actually occurred are increasingly highlighted, the theories behind that movement are being more widely seen as without merit. This is not only bringing the education lobby's expertise in solving our current school problems into question, it is progressively opening the way for advocates of meaningful educational choice to demonstrate the power of competition and the incentives it generates to a usually inattentive public, whose attention has been attracted by the magnitude of the crisis.

[9] See Niskanen, William, *Bureaucracy and Representative Government*, Chicago, Aldine, 1971.

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BOOK REVIEWS

Alien Nation: Common Sense About America's Immigration Disaster
Peter Brimelow
Random House, 1995.

What began as a routine trip home for commuters on the Long Island Railroad suddenly turned into three minutes of sheer terror and death on a December evening in 1993. Six Commuters never made it home alive. For nineteen other passengers, who were severely injured or even paralyzed, life will never be the same. The perpetrator, Colin Ferguson, a Jamaican immigrant and self-proclaimed hater of whites, emptied a loaded 9mm pistol into a crowd of 90 passengers.

Journalists and other "analysts" in the media portrayed this incident as a result of "America's obsession with guns". The media hype, that firearms *exclusively* cause violence, obscured significant personal information about Ferguson. Although *Time* pointed out that Ferguson's family was quite affluent and that his childhood was better than the average Jamaican adolescent, most of their coverage focused almost entirely on handguns and the type of ammunition that was used. Details about Ferguson remained sketchy while the media exhausted the relationship between firearms and violence. For instance, *Time's* cover story featured a Ruger semi-automatic pistol superimposed over Ferguson's face with the caption: "Enough!"

As Peter Brimelow points out in *Alien Nation*, the fact that Ferguson was a Jamaican immigrant was never an issue among the "media elite." Again, the pundits explained away the broader implications of Ferguson's actions as being mainly a matter of guns and ammunition. Brimelow questions this narrow-minded view and boldly asks: What is the likelihood that those commuters would have reached their homes safely *had Ferguson never emigrated to the United States*? Moreover, do some immigrants individually reflect the social ills that in many cases besiege their native homelands? The fact that the press often "examines" various links to violence, guns or poverty for example, says little if anything about the media's thoroughness in probing other plausible causes of violence. Brimelow notes that the

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immigration issue never surfaced in the Ferguson case because it was tantamount to "racism" and "immigrant bashing". Given the fact that investigators found notes on Ferguson that detailed his racial hatred, it is bewildering why no one in the media raised the point as to whether Ferguson's actions constituted a "hate crime."

Consider the review of *Alien Nation* that appeared in *Reason* magazine. The reviewer, John J. Miller, vice president of the Center for Equal Opportunity, distorts Brimelow's point about the Ferguson case. While he claims that Brimelow's reasoning is faulty: "Colin Ferguson is an immigrant. Colin Ferguson is bad. Therefore, all immigrants are bad," Miller only reinforces Brimelow's initial argument, namely that there are two sides of the immigration debate, not just one as claimed by those who believe that "immigration is good, but concern about immigration bad." By oversimplifying Brimelow's views, Miller reveals more about the biases of the pro-immigration lobby than he does about the attitudes of restrictionists.

Christopher Farrell's review in *Business Week* is similar in tone and argument. He describes *Alien Nation* as an "Unconvincing book" then adds,

> The author's reasoning eventually becomes absurd as he depicts the nefarious immigrant at work behind every high-profile social, political or economic problem – from crime to environmental destruction. In a bizarre digression, for example, he remarks that if Colin Ferguson hadn't emigrated to the U.S., the 25 commuters he mowed down on the Long Island Railroad would still be unscathed.

Although Ferguson was eventually convicted and sentenced to 25 years to life for each of the slayings, the case itself is not an isolated incident. The World Trade Center bombings (carried out by Islamic extremists), the killing of CIA employees outside CIA headquarters, and the more recent murder-suicide episode at Harvard reveal the fatal consequences of current U.S. immigration policies. Recently, the CBS program "48 hours" showed how illegal immigration has contributed to violent crime in the U.S. Brimelow states that in 1993 nearly half a million non-citizens were incarcerated in American jails for committing crimes in the U.S., and California officials complain that it is futile to deport illegal aliens when they

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are able to return time after time without penalty. The annual cost to California of incarcerating illegal aliens is $368 million, with 36% of convicted criminals in California being illegal aliens.

Such problems raise questions that only a few writers such as Brimelow dare to discuss. Brimelow points out that a "nation-state" is "the political expression of a nation", and that a nation is "an ethno-cultural community." In other words, as Patrick Monyihan wrote in his book *Pandaemonium,* a nation is "a group of people who believe that they are ancestrally related." Brimelow sees a major problem in the fact that the American people have been persuaded, by the constant misuse of these terms, to confuse the idea of a nation-state with that of a mere political state. They have been led to forget that a nation-state com-rises a populace which shares a common origin, culture and sense of purpose.

Opposing the idea of the United States as a "universal nation", a concept which is in his view a contradiction of terms, Brimelow clearly regards the immigration of people of totally diverse cultural and genetic origin as destructive to the future of the U.S., which as late as 1960 was nearly 90% European, as a nation-state. However, he also asks a number of strictly pragmatic questions: Has the presence of some immigrants in the United States been a blessing or nuisance? Do immigrants commit a disproportionate amount of crime, relative to the native population? Are the above incidents unusual or typical among immigrants over the years? Are high immigration levels an economic necessity? And why are so many Americans unsatisfied with current U.S. immigration policies? The point isn't that "all immigrants are bad," rather not all immigrants *assimilate equally well* in host societies. Brimelow argues that in so far as this pertains to social, economic and cultural conditions in America, the consequences of *inassimilable immigration* deserve further scrutiny.

The issue of the survival of the U.S. as a nation-state, and the problem of ethnic and cultural assimilation is frequently ignored by immigration enthusiasts and critics alike. Brimelow however directly confronts this taboo-ridden topic. He sees U.S. (and Canadian) immigration policy as comparatively unique on the world stage. Most developed and third world nations place strict controls on immigration. Since the end of World War II, Japan has been a dynamic and highly successful economic force on the world scene, yet has main-

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tained strict immigration controls. By accepting current levels of legal immigrants and allowing illegal immigration to go unchecked, Brimelow views U.S. immigration policies as an escalating disaster. And it isn't simply a question of the massive number of immigrants, the problem is aggravated by the shifting demographic composition of America. Leon Bouvier, a demographer and leading expert on immigration, projects that by 2050 "more than a third (36 percent) of the U.S. population will be post-1970 immigrants and their descendants – a staggering 139 million people." Most of these newcomers are non-European immigrants.

Brimelow illustrates his points with a series of impressive charts, one of which shows the projected growth in immigration if current trends persist. He calls this "the wedge". He shows that "immigration policy is quite literally driving a wedge between the American nation, as it had evolved by 1965, and its future".

A number of "free-market" economists believe that the benefits of unrestricted immigration outweigh the costs. One of the more prominent advocates of this view is University of Maryland economist Julian Simon. Brimelow effectively points out how this myopic view of immigration ignores historical, social and demographic consequences that result from a changing population base. Like-minded economists restrict their concerns to either the general access to labor markets, the efficient use of cheap labor or profit margins. To them, nothing else really matters.

These economists cavalierly disregard is the cultural and social customs that are directly linked to the traditions and folkways of the host population. As Brimelow points out, it is a myth to believe that the U.S. is merely an "idea" – with no ancestral ties to what was once commonly referred to as "old stock" Americans. Edward Alsworth Ross, the eminent sociologist, warned of the dire consequences from the "loss of like-mindedness" in his classic *Standing Room Only?:*

> Any prosperous country which leaves its doors ajar will presently find itself not the home of a nation, but a "polyglot boarding-house". The thriving areas of the world will come to be populated by a miscellaneous party-colored mass, of divers languages and religions and of the most discordant moral and economic standards ... .
>
> Invariably when elements with such incompatible traditions co-

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> mingle, castes form; so that the nation which persists in welcoming all inoffensive comers will presently find its people going asunder into closed groups. The fact is, migration is now so easy that any flourishing people has to choose whether it will allow caste barriers to rise in it, or will itself rear a barrier against non-assimilable aliens.
>
> So the people which leaves its doors open to the superfluous, come they from where they will and be their culture or lack of culture what it may, allows itself to become a hodgepodge, a babel of tongues, a medley of races, a jumble of human odds and ends. Therewith it must give up the idea of realizing Lincoln's dream of a "government of the people, by the people, for the people". In order to be governed even passably well it must reconcile itself to oligarchy, to being governed by a minority, holding the mass outside the pale or hope of citizenship. To ask the young peoples thrilled by the noble ideal of democracy to turn their backs upon it and accept a lower type of polity belonging to the distant past is asking the surrender of their birthright.[1]

Sixty-eight years later, Peter Brimelow has discovered the future that Edward A. Ross warned about. Indeed, reading Brimelow's book, one is strongly reminded of Ralph Waldo Emerson's observation that, "If the race is good, so is the place."[2]

Kevin Lamb

Public Economies in Action
The Basic Income/Flat Tax Proposal
A. B. Atkinson
Oxford University Press, New York. 1995

This book surveys recent developments in public economics by taking as a case-study the proposals for a basic income/flat tax scheme. It discusses various approaches to taxation and presents a framework for a system which would affect both personal income tax

[1] Edward Alsworth Ross, *Standing Room Only?* (The Century Co. NY, 1927 p. 330-331)
[2] The Complete Works of Ralph Waldo Emerson. Wm. H. Wise & Co., New York. 1929. Page 441

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and the social security system, replacing the one by a flat-rate income tax and the other by a guaranteed income. This idea has generated wide interest in a number of countries, and is being actively discussed by several political parties. The book explains how these changes would benefit a wide variety of social groups, leading to a greater redistribution of income. At the same time, it also raises the question of whether a single reform can meet the very different objectives of different supporters. The author reviews different areas of public economics in which there has been active research in recent years – namely the theory of optimum taxation, public choice theory, general equilibrium analysis of incidence, numerical tax-benefit modelling, and econometric studies of work incentives – and asks how these contribute to our understanding of this particular policy reform. He also indicates the promising directions for future research.

The author does not argue for or against the basic income/flat tax proposal, but believes it should be on the agenda for any serious discussion of tax and social security reform for the twenty-first century.

The Political Economy of International Oil
Commodities in the International Economy
George Philip
Edinburgh University Press: Edinburgh, Scotland. 1994

The main oil-exporting countries were extremely poor in the recent past. However, after they were granted control of their domestic oil industries by a weakened and internationalist-looking West exhausted by World War II, they have earned enormous wealth from this valuable resource. They have also, at times, used the 'oil weapon' to some effect in global politics. Why, therefore, has such vast oil revenue done so little to bring about sustained political and economic development in these countries?

George Philip's book examines this paradox. Exploring the complex relationship between oil and the development experiences of its poorer exporters, it is a comparative historical study which traces the path of global oil expansion from initial exploitation by Western corporations, through the increased taxation and eventual expropri-

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ation moves of the 1940s and 1950s, to the boom and slump of 1973-86 and its aftermath – raising challenging questions about economic development, about political modernization and about the balance of the present-day global economy as a whole.

Fossil fuels have proved to be an ecologically dangerous source of energy in an over-crowded world, and this (and the political and economic power which oil gave to the oil-rich countries) has driven the industrial nations of the world to develop nuclear power, another ecologically dangerous resource. However, the book does not concentrate on this topic, nor does it consider the benefits to be accrued by the scientific exploitation of solar energy utilizing space-based conversion systems (now being developed by Japan: see earlier articles in this journal). Instead it tends to concentrate on the achievements and failures of measures introduced by the newly oil-rich countries to utilize their new wealth wisely for the benefit of future generations of their populace.

The fact that the author does not choose to address the long-term global implications of the energy problem does not detract from his competency to analyze the topic that he sets out to study: the internal impact of oil-wealth on the countries which benefited from the Western discovery of the use of oil, how to find oil, how to recover oil, how to refine oil, and how to transport it to where there was a demand for it. Decolonization made a gift of all this to those who had chanced to seize control of the oil-rich parts of the world before the Western powers did, except in North America and Russian-controlled Siberia. But this gift was not well-used, according to author George Philip. The list of failures and wastage of the vast oil wealth transferred by the West to the poor recipient countries is a long one, extending from Iraq, Iran and Libya to Venezuela and Mexico. But most dramatic of all was the Nigerian debacle. Each of these countries benefited from an unbelievable cornucopia of wealth transferred from the more enterprising nations of the world, but rampant corruption and short-sightedness left all of them with severe problems at a time when their oil reserves are diminishing and the major energy-using countries are beginning to develop alternative sources of energy.

The text is augmented by a useful and plentiful quantity of statistical data.

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Mitteleuropa: History and Prospects
Edited by Peter Stirk
Edinburgh University Press, Edinburgh, Scotland. 1995

The disintegration of the Cold War division of Europe and the reunification of Germany have given new significance to the debate about the political, economic and cultural structure at the heart of Europe. This pivotal topic is examined and attempts made to analyze the conflicts in the area and to understand the forces that shaped this key region through history. The various chapters investigate the issues set to determine the kind of future Central Europe can expect in the years to come, providing detailed critical and historical assessment of the role of Germany; the social, political and economic distinctiveness of the region; and the attitude of the states outside the area.

Editor Stirk explains the historic growth of the concept of "middle Europe", which has historical as well as spatial reality. Geographically it is not an easily defined region, the main physical features, the Danube, the Vistula and the Carpathians serving to divide rather than delineate the region. However, German intrusion into the area, and the growth of the German "eastern Reich," which repelled the Turkish invasion and freed and incorporated the Slovene, Croatian and Bosnian areas into the Austro-Hungarian empire, as well as Czechoslovakia and Hungary, territories which had acquired much of German culture, made Mitteleuropa a political and quasi-cultural supra-national territory. This was reinforced by an active Jewish population, which generally welcomed the supra-national concept, having found themselves often treated as aliens in Europe's nationalist states. The Jewish element also often supported the supremacy of the Germanic component, largely controlling the German-language press, and saw the German component as the force which maintained the sense of supra-national unity which held together the diverse peoples incorporated within the Austro-Hungarian empire.

The defeat of the Austro-Hungarian empire and its dismantling after World War I tended to disrupt this sense of unity, and the anschluss with Germany and German domination during World War II failed to reconstruct the sense of supra-national unity of "middle Europe." Soviet domination of most of middle Europe following the defeat of Germany in 1945 further destroyed what remained of any

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sense of cultural and national unity, and although at one point Slovenia sought to merge with Austria after acquiring its freedom from Marxist controlled Yugoslavia, this was rejected by Austria.

A final chapter traces the impact of the nationalist 1989 "revolution" which brought freedom from the Soviet Union, but regrettably fails to discuss the future of middle Europe in a continent increasingly dominated by the concept of European union. Nevertheless, well supported by historical maps, the volume provides a very useful historical background to an area which has had a vital and important past, but whose future still remains murky and hard to predict, situated as it is between two unpredictable giants – the still tottering and infant European Union of western Europe, and the tottering but still-existing Russian giant which remains a dominant military power overshadowing eastern Europe.

Tibet: Endurance of the National Idea
Stephen R. Bowers & Eva M. Neterowicz
Council for Social and Economic Studies, Washington D.C. 1995

A thoroughly up-to-date history of the fate of Tibet since the Chinese invasion in 1950. Totally unable to prevent a Chinese military takeover of their country, the small and outdated Tibetan army initially put up a valiant resistance, which did little to even delay the Chinese army influx. Historic monastic treasure houses of Tibetan culture, of great historical value since the country had never been subjugated to external rule (other than mild Chinese suzereignty in past centuries), were levelled by modern artillery fire, monks as the intelligentsia of this peaceful Buddhist nation were executed whenever they sought to resist the conversion of their national culture into that of an alien Marxist regime, while the outside world, including even India, was too intimidated by the Chinese goliath to intervene.

Of particular interest is the chapter entitled "Tibet in the post-Maoist Era." More recently, Beijing has attempted to seduce the Tibetan Buddhist intelligentsia to support its own creed of political philosophy by rebuilding a limited number of monasteries for the limited number of monks who are willing to sell their intellectual freedom for economic survival. These new monasteries are not

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imbued with the historic accumulation of the Tibetan past, but are purely modern constructions devoid of any true cultural value – a political ploy to undercut Tibetan independence of thought and absorb Buddhist irredentism into the prevailing political scene.

This has not prevented further efforts by Tibetan laymen and the surviving traditional monks to demonstrate their plea for more intellectual freedom, which demonstrations continue to be brutally suppressed according to reports coming out of Tibet. Unfortunately the UN array of international debating bodies and agencies, designed to prevent exactly this kind of oppression, has allowed Chinese aggression in Tibet to go unchecked by the UN and the outside world. The UN has been a very costly experiment, and its total unwillingness to act in espect of Tibet must be seen as yet another of its failures.

AIDS Today, Tomorrow:
An Introduction to the New HIV Epidemic in America
Robert Searles Walker
Humanities Press International, New Jersey. 1991

In a broad-based introduction to the multiple issues generated by the AIDS epidemic, Dr. Walker utilizes a wide range of data culled from diverse sources in an integrated, manageable way to produce this coherent synthesis. It is aimed directly at students taking courses dealing with contemporary social issues, sociology, social anthropology and sexually transmitted diseases and will also be useful to those educated readers who are curious to understand the epidemic.

HIV has only been known to the Western world for about 40 years. Originating in remote villages of sub-Saharan Africa, it must have been carried by migrants to the more developed world. Its first impact in the United States, leading to the death of a young person, mystified the medical world. However, samples of his tissue and blood were stored, and as the disease spread through American cities in the 1980s, and came to be identified, so it was revealed that he had died of AIDS.

For a long period, Asia remained very little affected, possibly

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because there was little migration from Africa to Asia, and until 1984 just five America cities accounted for 63% of the cases reported in the U.S. However, the author believes that in the next 15 years the U.S. AIDS epidemic will grow to parallel the African/Caribbean epidemic in proportions, and because of the speed with which the virus seems to evolve, it has joined the human race and will never simply "go away." The author looks at projections for the incidence of HIV in America in the year 2002, which range from a high figure of fourteen and a half million to a low figure of close to six million. However, one must remember that these estimates date from 1991, as do all his statistics, which otherwise are very useful. Although initially spread largely by homosexuals, AIDS is now being spread more rapidly by the drug-using community, and as a result it is becoming increasingly heterosexual.

Topics covered include a discussion of linguistic usages and metaphors applied to AIDS and their consequent policy significance; the impact of the epidemic on those professional groups engaged in searching cures and treatment; a historical-epidemiological comparison of the bubonic plague and the AIDS epidemics; and policy implications deriving from the nature of the HIV virus. In all, the impression received bodes ill for the future, and in the intervening period since this book was written there has been little new evidence to justify any greater degree of optimism.

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Lynching, History and Analysis
A Legal Studies Monograph

Dwight D. Murphey, J.D.

Journal of Social, Political and Economic Studies
Monograph Number 24
Paperback

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